Retail Outlook

IMRA
ANNUAL CONVENTION
1988

Industry Grows Amidst Consolidation

By Richard C. Halverson
Nationwide DSN Report

Retail analysts agree on at least one trend in discounting: a wave of consolidation is getting ready to crash over the industry as weaker, regional chains suffer from the superior execution of the powerhouses.

Here's what else they foresee as the decade of the '80s grinds to a close:

- The industry will operate fewer, but larger stores;
- All chains will face continuing pressure on pricing, with competitive demands to reduce costs;
- Warehouse clubs, either specialty, or general merchandise and food, will undergo explosive growth to become a phase of discounting as dominant as, especially for business customers, the discount department store was in the 1960s;
- Specialty chains will continue to snatch slivers of market share from full-line discounters;
- The hypermarket will prove itself a success, finding its niche in serving individual consumers, rather than businesses;
- Regional chains would be particularly vulnerable to a national recession as they struggle to maintain their market niches;
- Wal-Mart remains the chain to watch—and watch out for—as it expands its operating territory on its way toward becoming a national chain.

"I see a period of acquisition ahead," said Walter Loeb, senior retail analyst and principal of Morgan Stanley. "The trend is survival of the fittest."

Consolidation is a tradition within retailing, Loeb said. Department store chains, such as May, have gotten larger in order to make more impact on customers and suppliers, he said. Loeb also expects to see more consolidation within the specialty segment, such as The Limited's acquisition of Abercrombie & Fitch.

"The money pool is available, and retailing is a business most investors know," said Loeb.

As consolidation continues, chains such as Gold Circle could disappear, said William N. Smith, vice president and retail analyst for Smith Barney, with their stores split among surviving chains.

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Consumer Confidence, Spending Survive 'Crash'

By Richard Mount
Special to DSN

A recession by 1989?

While economic forecasting remains as much an art as a science, the possibility of a recession should be considered for planning purposes only. There does not appear to be, at present, the necessary causes for one to develop by the end of 1989.

Recessions are usually the result of imbalances within the economy: excess inflation, major problems in financial markets, widespread strikes, or the combination of reduced government spending and higher taxes. Recession can also be externally caused by reductions in raw material supplies, exchange rate difficulties or international financial problems.

The U.S. economy remains essentially balanced internally. During the current expansion, agriculture, capital goods, energy, consumer non-durables, autos, housing and non-residential construction have all undergone periods of weak demand. This has kept gross national product growth lower, but has also kept inflation in check and limited the development of broad-scale imbalances.

This special report on the outlook for full-line discount store sales has been compiled by the *Discount Store News* editorial staff with the assistance of Richard Mount, president of Mount Economic Consulting, a firm specializing in construction, regional and retail trade economics.

For discount store sales, this report utilizes the definition and history of full-line discount stores developed by *DSN*. These stores can be considered those that are multi-department, self-service, high-volume, low-margin, with central checkout and no one predominant product.

Store count figures by region and market were compiled from individual company reports, research by *DSN* editors and the "1988 Directory of Discount Department Stores," a Lebhar-Friedman publication.

Prior to establishing Mount Economic Consulting, Mount was manager of housing, construction, and regional economics for Merrill Lynch Economics, and director of research at Mackay-Shields Economics. He has been on the forecasting committees for Dow Jones and the Housing Market Report.

The economy finds itself in 1988 with four major problems: the federal deficit, the trade deficit, international concerns with the dollar, and problem loans at home and abroad.

Both the federal deficit and the trade deficit are becoming smaller problems as they shrink in both absolute and relative size to the overall economy. The steep drop of the dollar is past, and bankers will intervene to keep it within trading bands by small adjustments in interest rates.

International loan problems cannot be discounted, but if problems do develop, the Federal Reserve Board would reduce rates and worry about the possibility of rising inflation at a later date. If such a problem were to start now, it would not be before the end of 1989 that monetary policy could begin to be tightened.

In short, the economy is in good, overall balance and major problems appear manageable.

Retail Trade

Total retail trade increased 5.1 percent in 1987, exactly the same as in 1986. However, its composition changed dramatically. Auto sales, which had been a major contributor to growth in the current expansion, softened as buyers had to digest purchases in recent years. Auto producers tried to promote sales by bigger and better promotions, but buyers were not ready for more. The rise in auto retail trade, including parts, was only 2.2 percent less than inflation.

Non-auto retail sales, however, increased 6 percent in 1987, up from 4.6 percent in 1986. While most non-auto areas showed sales improvements of at least 5 percent, men's and boys' clothing was up only 0.8 percent and variety store sales only 2.0 percent.

Because of higher inflation in 1987, real sales gains slowed from their 1986 pace. Total real trade was up 1.2 percent in 1987, down from 5.1 percent in 1986. But autos accounted for much of this weakness.

Real non-auto sales were up 2.1 percent in 1987, 5 percent in 1986. Non-auto retail trade softened in the second half of 1987 as consumers turned cautious and built up savings; the savings rate jumped from 2.8 percent in the third quarter to 4.8 percent in the fourth.

National Forecast

	1986	1987	1988*	1989*
Percent Change of Major National Indicators				
Real Gross National Product	2.9%	2.9%	2.7%	2.4%
Real Disposable Income	2.8	1.5	2.8	2.5
CPI-Year-End	1.1	4.4	4.2	4.7
The Housing Market				
Housing Starts (000 Units)	1,805	1,621	1,520	1,490
Resales (000 Units)	3,565	3,520	3,410	3,380
Mortgage Rate	10.1%	10.1%	10.3%	10.7%
Retail Trade				
Total ($ Billions)	$1,437	$1,511	$1,550	$1,600
Percent Change	5.1%	5.1%	2.6%	3.2%
Retail Trade Non-Auto				
Total ($ Billions)	$1,117	$1,184	$1,220	$1,265
Percent Change	4.6%	6.0%	2.9%	3.6%
Full-Line Discount Store Sales				
Total ($ Billions)	$83.2	$84.9	$87.4	$90.2
Percent Change	2.5%	2.0%	2.9%	3.2%

*projected

Source: DSN, Mount Economic Consulting

Discount Store Sales

Discount store sales are likely to increase 2.9 percent this year and 3.2 percent in 1989, vs. 2 percent in 1987. Last year, consumer spending slowed, especially for non-durables. Non-durables should begin the upswing of a new cycle this year. Inflation is headed higher, especially for imported goods, increasing dollar sales. The economy is slowing, and discounters should gain market share from department stores.

The outlook for the economy, and in particular, for full-line discount stores through 1989 will be determined by three major factors: inflation, exports, and consumer confidence.

- Inflation will rise slowly through 1989, with the Consumer Price Index up 4.2 percent in '88 and 4.7 percent in '89 after a 4.4 percent increase in '87.
- With the drop in the dollar that has already taken place, real net exports will improve from a negative $136 billion in 1987 to $120 billion in 1988 and $100 billion in 1989.
- Consumer confidence was shaken in the fourth quarter of 1987 by the stock market crash, but has recovered.

Inflation

Through 1989, inflation should be rising slowly, putting upward pressure on interest rates. While the direction is up, the trend should be gradual, not sharp. The Consumer Price Index rose 4.4 percent during 1987, and is expected to be up 4.2 percent in 1988 and 4.7 percent next year.

Behind the upturn: higher import prices due to the weakness of the dollar, tighter labor markets, and possible spot commodities shortages. For

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Regional Analysis

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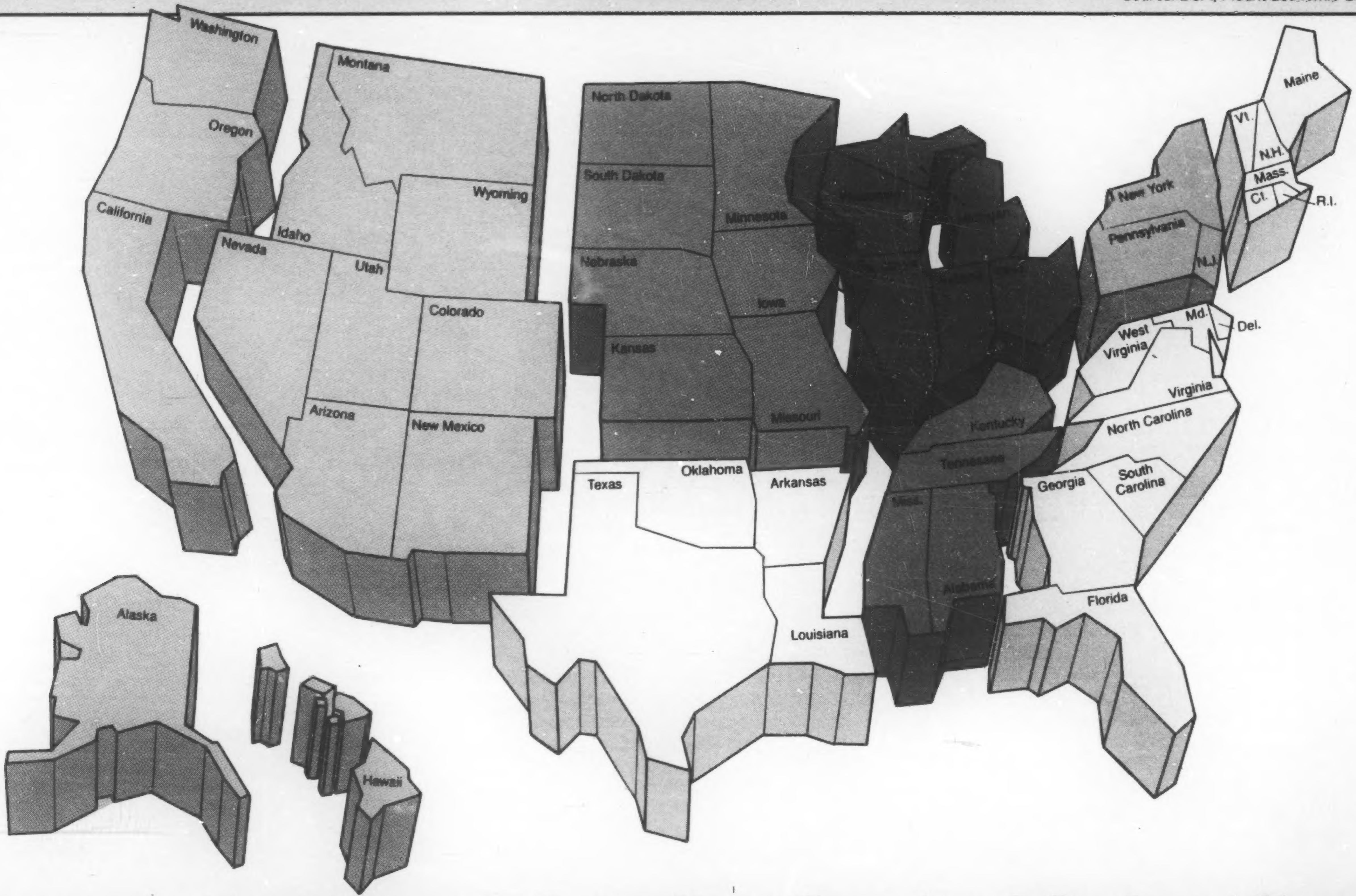
Discount Store Sales Growth by Region

Pacific		Mountain		West North Central		West South Central		[illegible]		East South Central		Middle Atlantic		South Atlantic		New England	
Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change	[illegible]	[illegible]	Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change
1986	8.1%	1986	2.6%	1986	2.6%	1986	0.2%	[illegible]	[illegible]	1986	8.4%	1986	2.0%	1986	3.5%	1986	2.1%
1987	2.0	1987	1.3	1987	2.1	1987	1.4	[illegible]	[illegible]	1987	2.2	1987	2.2	1987	2.2	1987	2.4
1988*	3.4	1988*	2.4	1988*	3.0	1988*	2.7	[illegible]	[illegible]	1988*	3.2	1988*	2.5	1988*	3.1	1988*	2.8
1989*	3.4	1989*	3.0	1989*	3.3	1989*	3.0	[illegible]	[illegible]	1989*	3.6	1989*	2.6	1989*	3.4	1989*	3.1

*projected

Source: DSN, Mount Economic Consulting



Consumer Confidence, Spending Survive Market 'Crash'

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discounters, higher inflation should be translated into better profits per item and increased sales as consumers shift some of their purchasing from department stores to discounters.

Much attention has been focused on the factors calling for sharply higher price increases through 1989. The two most often cited are:

- The decline in the dollar that would increase the price of foreign goods while giving domestic producers more pricing flexibility;
- The fall in the unemployment rate to 5.5 percent putting pressure on wage rates in many parts of the country.

Factors suggesting a slower increase in inflation are often overlooked, however.

- The lower dollar encouraged many foreign producers to cut their margins rather than boosting prices.
- The drop in the dollar has been against selected currencies, especially Japan and West Germany. There has been little change of the dollar against other trading partners such as Canada, Mexico, Hong Kong and Taiwan.
- Manufacturing has become more competitive internationally in recent years as the number of developing nations with better production capabilities has risen. Many products are produced overseas in countries with very low wage rates, limiting the pricing flexibility of U.S. producers.
- In the current recovery, management has learned to negotiate rather than capitulate to labor demands.
- Capacity utilization rates are high in many industries, but with moderate growth in demand, modest plant investment and intense foreign competition, price increases will not be sharp.

Recent developments in the Consumer Price Index illustrate that inflation remains under control.

In the most recent three months, inflation of the index has been running at a 4.2 percent rate, below the 4.4 percent pace during 1987. While apparel was the major factor behind the 0.5 percent increase in March, it had declined in two of the three prior months.

Interest Rates

Interest rates are headed higher, with the upturn in the second half of 1989 sharper than the near term. This overall rise in rates will be modest by historical standards and, in conjunction with rising income from a growing economy, will not put significant downward pressure on future consumer spending or overall economic activity. While interest rates will trend up slowly through 1989, expect to see fluctuations of at least 75 to 100 basis points around this line as financial markets take time to adjust to change.

During 1987, interest rates moved up in stages through mid-October as the Fed wanted to stem the drop in the dollar. After the stock market correction, however, rates were lowered to stimulate the economy and to ease fears in the financial community. Since mid-March of '88, rates bottomed and began a slow uptick.

Inflation began to increase in 1987.

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Discount Store Sales by Region

(In Millions)

	1986	1987	1988*	1989*
United States Total	83,200	84,900.0	87,400	90,200
New England	6,238	6,384.0	6,564	6,765
Middle Atlantic	10,817	11,054.0	11,327	11,627
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West North Central	8,174	8,346.0	8,600	8,885
South Atlantic	12,829	13,117.0	13,530	13,990
East South Central	7,005	7,157.0	7,385	7,649
West South Central	10,649	10,799.0	11,091	11,428
Mountain	4,494	4,551.0	4,658	4,799
Pacific	7,585	7,734.0	7,997	8,271

*projected

Source: DSN, Mount Economic Consulting

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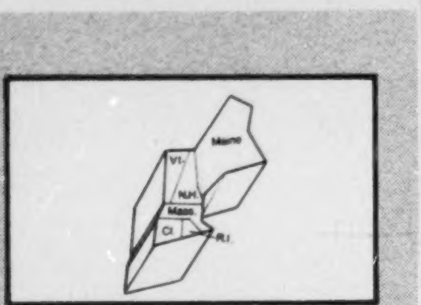
Regional Analysis:
New England
Connecticut • Rhode Island • Massachusetts
Vermont • New Hampshire • Maine



Labor Shortage Pinches Discounters

New England merchants must learn how to operate with fewer store employees through intensified self-service and operating systems, or hope that, contrary to U.S. Census Bureau projections, population levels will take a decided upswing.

New England is an ideal economy for families and businesses: the highest per capita effective buying income levels of any region; overall low crime rates; and a high concentration of states with no sales and/or earnings taxes. Four of the top 10 best places to live, according to *Money* magazine's 1987 report, are in New England.

The influx of high-tech manufacturing firms into New England has been gradually filling a void created when textile, shoe, jewelry and other industries lost their place in the economy, sparking the initial stages of what could become the East Coast's version of Silicon Valley.

"The area has really been helped by high-tech business," said Harry Kohn, Stuarts Department Store president. "It has shifted the area into service-related business from what had been entirely manufacturing 30 years ago."

A problem with this dream economy, however, is the almost non-existent unemployment level, which has become a nightmare for retailers.

New England had the lowest unemployment rate of all regions in the country in March 1987 at 4.3 percent, and then it dropped an additional 1.1 percent to 3.2 percent by March 1988. It is expected that the area will maintain this low unemployment level.

With the exception of New Hampshire, all six states in the New England region are projected to have population growth below the national average through the year 2000, based on U.S. Census reports.

For discounters and other merchants who require an abundance of minimum-wage level employees, the region is the toughest labor market they have confronted.

While the high-tech companies have been able to draw from universities in cities such as Boston and Providence for employee needs, discount stores, department stores, fast food chains and other merchants have not found a ready source of minimum wage employees. Despite staff shortages, sales, in general, have moved in tandem with the high-tech surge.

Lawrence H. Wortzel, professor of marketing for the School of Business at Boston University, said the nature of

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New England Snapshot

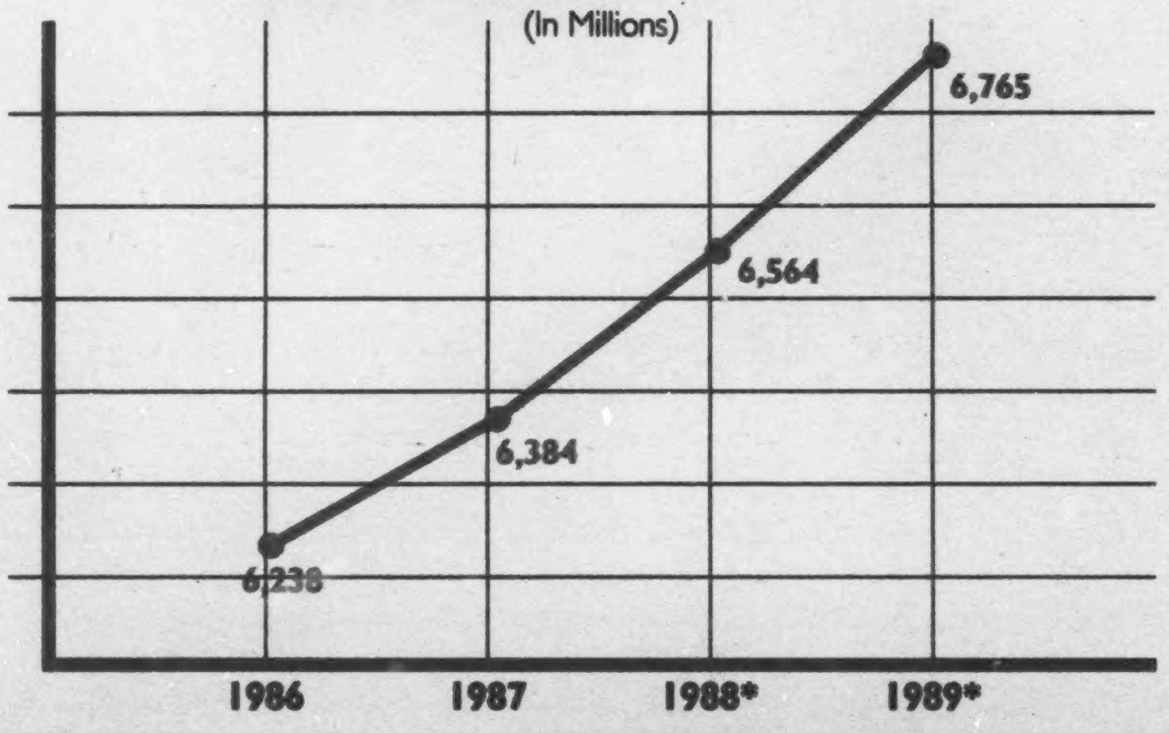
New England was the strongest of the nine regions in the current expansion. Massachusetts was propelled by financial services and high-tech industry; Connecticut by insurance, defense and corporate relocations; New Hampshire has strengthened in manufacturing and housing because of low taxes; and Rhode Island is developing its own high-tech base, a spillover from Rt. 128 in Boston.

Problems for the region through 1989 will not be severe, but growing nevertheless. Labor shortages plague Boston, where the local unemployment rate is 3.1 percent. Housing prices are high and limit homeowners in other parts of the country from relocating to the area. Defense spending is slowing and will harm some rates.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Connecticut	2.8%	3.6%
Maine	6.4	5.2
Massachusetts	2.1	3.8
New Hampshire	4.4	3.1
Rhode Island	1.7	4.3
Vermont	4.9	4.0
Total:	2.9	4.0

New England Discount Store Sales

(In Millions)



*projected

Source: DSN, Mount Economic Consulting

New England Region: Discount Store Count

Chain	Stores
Bradlees	76
Ames	75
Zayre	75
K mart	70
Caldor	56
Service Merchandise	22
Rich's	20
Stuarts	20
Mars	15
Lechmere	12
B.D.'s	11
Consumers Distributing	11
Others	45
Total:	**508**

Source: DSN *research*

Consumer Confidence, Spending Survive Market 'Crash'

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Price increases during 1986 were restrained by the drop in energy prices and agriculture. As these markets stabilized, overall inflation returned to the rate that prevailed before 1986. The increase in inflation was matched by an upturn in interest rates, keeping the real interest rate at 4.5 percent.

Under current conditions, the Federal Reserve is not likely to try to further reduce interest rates for fear of lowering the dollar. The drop in the dollar since February of 1985 has been dramatic. The trade weighted dollar, a measure against major trading partners, is down about 50 percent from its peak and foreign banks have found it necessary to support the dollar at current levels. With growing foreign pressure on the Fed to take a bigger role in stabilizing the dollar, interest rates will not head lower. And, in this election year, the board does not want to be charged with playing politics.

On the other side, there are two forces against the Fed causing a major increase in interest rates. With inflation still under control, the Federal Reserve does not want to herald a recession. Second, with manufacturing beginning to revive in many regions of the country, higher interest rates would reduce business investment, leading to a contraction in business activity for industrialized states.

With inflation likely to rise in '88 and '89, the pressure on interest rates should increase, but not sharply. Mortgage rates should rise from 10 percent in early April to 10.4 percent by year-end '88 and 11 percent by year-end '89.

Through 1989 housing starts are likely to ease from current levels, but will not undergo a typical roller-coaster housing cycle. This year, starts should total 1.52 million units, down 6.2 percent from last year. For '89, a decline of 2 percent is expected.

Single unit starts will be pressured by rising mortgage rates through next year, and will decline 5.3 percent in 1988 and 4.7 percent in 1989. And, price will be a problem: Buyers have turned to upscale housing and new home prices continue to outpace income gains.

During 1987 when rates rose, single unit starts remained strong as buyers were able to shift to adjustable rate mortgages (ARMs) which are about 200 basis points (2 percent) less than fixed-rate mortgages. ARMs accounted for only 19 percent of new mortgages in April of 1987, but by year-end were a far higher 73 percent. In a rising interest rate environment through 1989, buyers will not be able to increasingly shift to ARMs because of their already high usage.

Resales will not decline as much as housing starts because the average resale offers a more attractive alternative to a new home than in the past. This year resales should be down only 3.1 percent, next year 0.9 percent.

With interest rates on the rise and the ability to tap additional ARMs restrained by the near-record levels currently in use, buyers will turn increasingly to resales.

For discount stores, relative strength in the resale market will be a plus. Before putting homes on the market, smart sellers make small improvements to make their houses more marketable. After the sale, the buyers will purchase new appliances, furniture, paint, rugs and fixtures.

Both housing starts and resales are entering a contraction that seems timid by historical standards of decline. It has not been unusual in prior housing cycles for starts to decline by more than 30 percent in one year. But, savings and loans have changed dramatically in the 1980s and housing now has better access to funds internationally.

The economy is in transition from a consumer and defense spending-led expansion to manufacturing, investment in equipment and exports.

During 1988, economic growth will slow as an inventory correction is likely in the first half of 1988, and the pickup in exports and capital spending will be slow in developing through 1989. For 1988, the gross national product is expected to increase 2.7 percent; in 1989, 2.4 percent. While rising interest rates will act as a drag during this period, they will not rise fast enough to bring on a recession.

Consumers were the linchpin of the current expansion in the early stages. From '82 to '86 consumer spending in unit volume increased 4.6 percent per year, while the gross national product rose only 4.1 percent. Consumers emerged from the double-dip recession with strong pent-up demand, and they bought increasingly on credit. Consumer installment debt, as a percent of income, rose from 11.8 percent in November of '82 to 16.1 percent in October of '86.

Last year was a turning point. Auto demand slackened as the large number of sales from 1983 to 1986 had to be digested. At the same time, demand for non-durable goods weakened. The year ended on a big question mark: Would consumers retrench in the wake of the stock market correction?

Indicators since October showed consumers were not basing spending decisions on market averages but on incomes and desires. Consumer confidence declined for a short period and then recovered, along with spending.

Nashua, N.H.:

Chains Seek Sites as Megalopolis Edges North

NASHUA, N.H. — Spotlighted by newspaper, magazine and television reports of its scenic beauty, evolving high-tech businesses, and a 40-mile commute to Boston, Nashua, N.H., may soon be known for its gold mine of retail sales opportunities.

Notwithstanding projections about how Nashua could evolve into a business center in its own right, the current population of about 77,000 already has more than its share of the nation's wealth, and is generating disproportionately high retail sales levels.

The challenge for the Nashua retailer is to find store sites before real estate costs go much higher, or to locate new stores in towns 10 or 20 miles further north than Nashua to get a jump on what has become a steady Northern creep of urbanization radiating from Boston.

Nashua's current population of about 77,000 is generating disproportionately high retail sales levels.

Shortage of Workers

Retailers who are looking to open shop in Nashua have found that their only stumbling block besides high real estate costs is the shortage of minimum wage-level employees, a trend which is rampant throughout the New England region and along most of the East Coast.

While the Manchester/Nashua area is only the 138th largest city by population in the country, it is 85th in terms of the number of households that have an effective buying income (EBI) of $50,000 or more, according to *Sales & Marketing Management's* 1987 report. More importantly, it is 16th in terms of its median household EBI, which is $32,617—$8,000 over the national average—and ranks ninth in the country in per household retail sales.

The state of New Hampshire has the lowest poverty rate in the country, 6 percent, and has one of the lowest crime rates in the country, according to *The 1988 Development Report Card for the States*.

Manchester/Nashua is also considered to be the metropolitan area with the largest percentage of fast-growing companies in the country (nearly 6 percent), and second only to Austin, Texas, in terms of new jobs growth, according to *Inc.* magazine's Metro Report, 1988.

Unlike most boom towns, however, Nashua is not yet overstored. Bradlees and Zayre both operate two stores. Rich's, a regional discounter based in Salem, Mass., which presently has one store in Nashua, plans to open a second next year. K mart has a store just outside the Nashua city limits. Stuarts, with one store open, does not currently have any plans to open any others in the town. The only catalog showroom operator in the area presently is Treisman's.

Lloyd Wickett, K mart's director of operations in the Eastern region, said the real magic of the area is not the town itself, but its proximity to Boston that is propelling growth. He said that it is just a matter of time until Nashua's real estate costs catch up with Boston's, driving Boston commuters further north where more property can be bought with less money.

Very Close to Boston

"It's not that Nashua is where the goose laid the golden egg," said Wickett. "It's the city's proximity to Boston. Property values have gone so high in Boston, and they are rising in Nashua as well. People are putting priority on having more property and better housing, and are willing to sacrifice travel time and the money it takes for an extra tank of gas to get it."

While the latest figures suggest that high property costs have not diluted the strength of the area's retail sales, professor Lawrence Wortzel of the Boston University School of Management believes it could be just a matter of time.

"There are very high housing costs, which has had an impact on discretionary income. We're getting ripples of high costs even as far north as Southern New Hampshire. It does hurt disposable income."

Retailers can work around high real estate costs, Wortzel suggested, by considering second-use or "old space." "There is some old space around, like former grocery stores. They are not the best locations in terms of traffic or access, but it is cheap space. If an operator can find a creative way of using small areas—25,000 square feet—then it could be profitable," he explained.

Howard Rich, president of Salem, Mass.-based Rich's discount stores, believes the labor and real estate problems in Nashua pose real threats to the future of the local economy.

"Our Nashua store is doing quite well, and we plan to open our second store there next year," he said, but then acknowledged that, "the tight labor market combined with the rising costs of real estate—both in homes and businesses, even as far north as southern Maine—might discourage outside companies from coming in."

He further described the labor situation as the worst he has ever experienced in more than two decades with the chain.

Wickett at K mart said the chain has decided not to fight a wage war with other retailers for hourly employees, but will keep pace with the overall market rate. "Otherwise wages are like playing checkers; you only go in one direction. Competition won't let us raise wages. We need to keep costs down in order to keep prices down, so that isn't the tactic we're taking."

Unlike retailers, the high-tech businesses that are flooding the market do not require a large minimum wage labor pool, and can also more easily afford rising real estate costs.

Among the major high-tech firms that either opened regional offices or headquarters in Nashua are: Digital Equipment Corp., maker of digital computers, software, and computer accessories, which has 10 locations in and around Nashua; Algorex-Nashua, maker of printed circuit boards; Analytyx Electronics Systems, which manufactures computer-controlled digital systems; Dataproducts, maker of computerized printers; and many others.

Nashua: Discount Store Count

Chain	Stores
Bradlees	2
Zayre	2
Rich's	1
Stuarts	1
Treisman's	1
Lechmere	1
Total	8

Source: DSN research

New England Labor Crunch Pinches Retailers

(Continued from page 102)

retailing in the New England market is likely to undergo a transformation in the near future due in part to labor shortages. Discounters could be in jeopardy of losing market share as department stores further develop their own self-service strategies.

"The labor situation here is really tough. We have a shrinking high school age population and we don't even have a large population of retired people to fall back on, because they all move to Florida," said Wortzel.

The answer? "Better training and self-service. Right now traditional department stores are not set up for people to shop for themselves, but if they want to stay competitive they will have to include self-service merchandising into stores."

Discounters have an edge on most upscalers by already being well-practiced in keeping labor costs to a minimum, but chains like Rich's, which has all of its stores in the New England market, will have to work hard to maintain that competitive edge.

"The most important factor in New England right now is the tight labor market," said Howard Rich, president of the 21-unit regional chain.

The company is presently in the process of refixturing its stores to make them, among other things, more "labor saving," Rich said. He added that "Labor has been the biggest challenge. I've been with the company for the past 23 years and in the past year or two, the labor market has been the worst it has ever been."

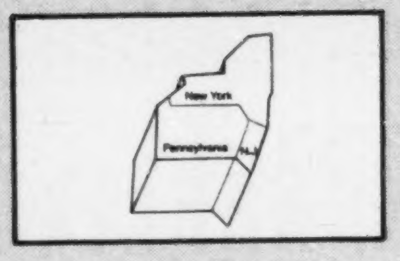
The chain's same store sales growth figures—9 percent in 1987 and projected to be between 6 percent and 7 percent during 1988—indicate that, despite labor shortages and competition from other New England retailers like Bradlees, K mart, Zayre, Ames and Caldor, business has been good.

In contrast to Rich's approach, K mart's Lloyd Wickett, director of operations in the Eastern region, said the discounter has been cutting labor costs through automation.

"Automation will help us more and more down the road," Wickett said. "We're already about 60 percent finished. It should be about two more years before it is complete."

Automation of checkouts will speed checkout time by 27 percent, Wickett noted, and will also reduce the time used for merchandise ordering and receiving.

"You're not going to wave a magic wand and expect your labor problems will disappear. There is obviously a shortage and it's not going to go away for at least another 15 years down the road," Wickett projected.



A Pair of Distinct Economies Co-Exist

A range of mountains, called the Poconos in Pennsylvania, slashes southwestward through New York and Pennsylvania, generating updrafts that enable glider pilots to set long-distance sailplane records flying down to Virginia and back.

These mountains also serve as a geographical dividing line that cuts the Middle Atlantic Region—New Jersey, New York and Pennsylvania—into two distinct economies.

To the east: the booming, service-based economy centered on the Philadelphia to New York City axis. To the west: the now-recovering manufacturing economy centered around Pittsburgh, Buffalo and Rochester, N.Y.

A comparison of unemployment rates between western and eastern Pennsylvania illustrate differing fortunes of the two zones: Philadelphia, 4.2 percent, and nearby Lancaster County, 3.5 percent, contrast sharply with 6.2 percent in Pittsburgh and 9.4 percent in nearby Beaver County, where thousands of former steel workers may never work again.

Regional Comparisons

The April unemployment rate in New Jersey and New York dipped to 3.5 percent, while the rate in Pennsylvania slipped to 4.8 percent.

With the exception of New Jersey, population trends have been unkind to the Middle Atlantic region. Although New York is still the second largest state in the nation, it grew only 1.5 percent between the 1980 census and 1986. Pennsylvania grew only 0.6 percent, and New Jersey—the most densely populated state in the nation—making it a retailer's dream—grew 4.2 percent, the Census Bureau reported.

"I can't foresee any recession for the Middle Atlantic," predicted Robert Hayes, corporate economist for K mart. "New York is working well. New Jersey is one of the real economic success stories."

Despite Pennsylvania's problems such as the decline of coal, the two major metro areas of Pittsburgh and Philadelphia are doing well, each for its own reasons, Hayes said.

Even though the Pittsburgh area lost 150,000 steel industry jobs over the past eight years, it has developed into a technological center and a western focus for financing. In addition, Pittsburgh has become a top location for corporate headquarters, he said.

On the downside, the recent closing of Volkswagen's assembly plant in Stanton, Pa., affected the primary metals industry, Hayes said. That plant once employed 15,000, but had dwindled at the end to about 3,000.

The chemical industry boom is helping Buffalo and Rochester, home of Eastman Kodak, K mart's economist said. "Kodak has turned itself around, and that helps the retail sector.

In part because of the decline in the dollar, increased exports are helping boost port activity in Philadelphia and Elizabeth, N.J., he said.

Since the crash, the New York City and Northern New Jersey financial services industry has lost 10,000 to 12,000 jobs, Hayes said.

"The east and west [areas of the region] are two different worlds," said Mark Zandi, director of regional forecasting for the WEFA Group, an economics reporting service located in Bala Cynwyd, Pa.

Middle Atlantic Snapshot

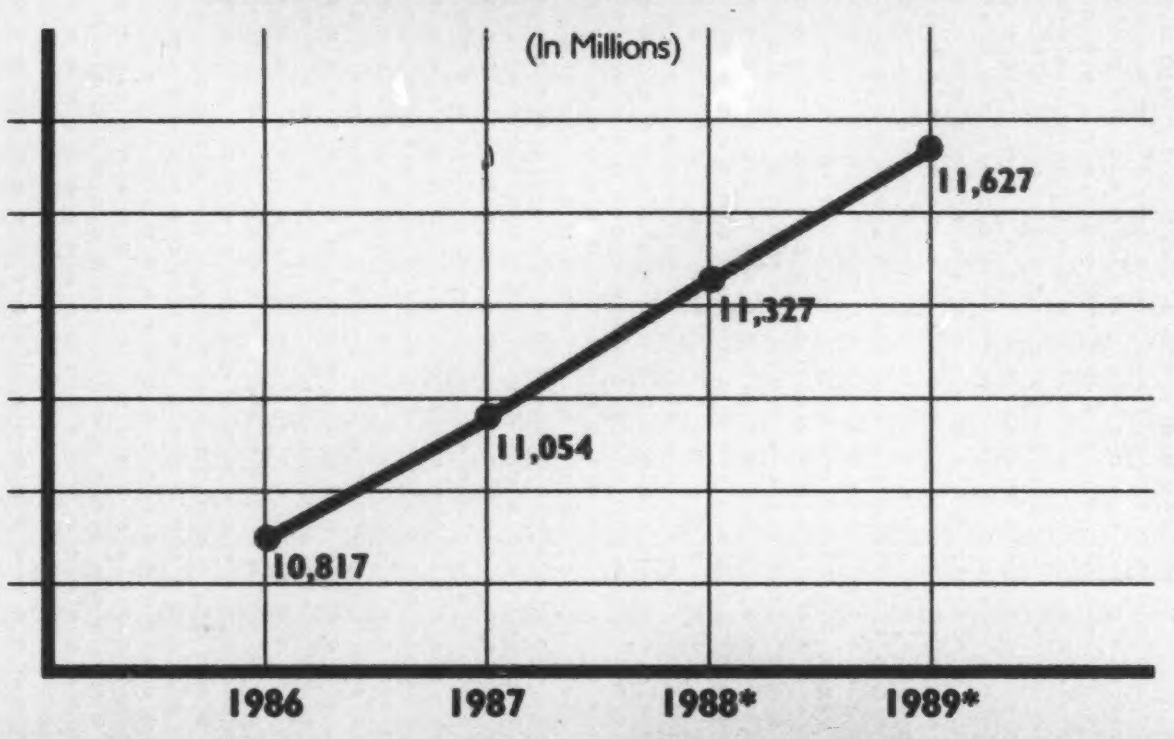
Growth in the Middle Atlantic states has fueled the expansion of financial services in New York City and Philadelphia. Strength in defense has boosted activity on Long Island. Those parts of New York and Pennsylvania that had a concentration in manufacturing, mining or agriculture have been weak for the most part in this expansion.

After the October fall in the stock market, the bloom is off the New York rose. Approximately 16,000 layoffs took place in the New York financial markets during the first quarter of 1988. While most of these individuals have found employment elsewhere, total compensation is likely to be less and confidence about the future is certainly lower. The manufacturing sections in the Middle Atlantic are beginning to show some life, offsetting much of the weakness in services.

The major problem for the region is construction. Vacancy rates in Manhattan office buildings are climbing and, with much lower rentals in other parts of the country, many firms are moving departments to New Jersey or the Southwest. Land prices have escalated to the point that moving into the area from other sections of the United States is prohibitive.

State	Employment Percent Change Feb '87 to Feb. '88	Unemployment Rate (Feb. '88)
New Jersey	2.7%	4.0%
New York	2.3	4.4
Pennsylvania	2.8	5.9
Total:	2.5	4.8

Middle Atlantic Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

The west failed to share in the national economic boom from 1982 on, Zandi said, and its manufacturing base has undergone severe restructuring.

But the outlook is changing with the increase in exports. Manufacturing once again is producing jobs, he said.

From 1982 through 1987, the financial sector drove the service-based economy of New York, Northern New Jersey and Philadelphia, Zandi said. Following the stock market crash, the financial sector will experience only slow growth, causing a ripple effect on law and accounting, he predicted.

The boom in the eastern part of the region has created a labor shortage, Zandi said.

Despite its services orientation, the east still has a fairly strong manufacturing base, Zandi said. Industries such as food processing (Campbell Foods, Camden, N.J.), electronics, (Commodore, West Chester, Pa.) and drugs (Smith Kline, Philadelphia), provide about 18 percent of the jobs, or the same proportion as in the national economy, Zandi said.

Middle Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
K mart	215	**S.E. Nichols**	23
Ames	111	**Clover**	22
Jamesway	93	**Present Co.**	18
Consumers Distributing	74	**Best Products**	17
Hills	59	**David Weiss**	17
Bradlees	54	**Fisher's Big Wheel**	16
Caldor	50	**TSS-Seedman's**	16
Murphy's Mart	38	**Brand Name Sales**	14
Family Dollar	35	**Alexander's**	13
Zayre	31	**Gold Circle**	12
Service Merchandise	27	**Others**	55
Dollar General	23	**Total:**	**1,033**

Source: DSN research

With the exception of apparel, retail sales and employment in the region remain strong, said William Dunkelberg, dean of the School of Business and Management, Temple University.

The usual January slump didn't occur, so on a seasonally adjusted basis, retail employment has gained from 1987, the economist said.

"Western Pennsylvania is showing a lot of strength and is catching up with the rest of Pennsylvania," he said.

Unemployment for the region is running at 4.8 percent for the second quarter of '88, Zandi's WEFA Group calculated, compared to 4.9 percent in 1987.

The total number of non-farm jobs in the region stands at 16.8 million, WEFA estimated, including 3.7 million in trade.

Employment, Income Growing

Employment in the second quarter is growing at an annual rate of 0.5 percent, compared to 2.4 percent for all of 1987. Personal income is gaining 5 percent annually, WEFA reported, with real personal income, in 1982 dollars, growing at about 1 percent.

Housing starts are running at an annual rate of 148,250 for the three states, down from 166,340 in 1987, WEFA reported. Single-family starts are running at an annual rate of 122,020 a year, against 131,600 last year. Multi-family units are faring worse: a 26,230 annual rate against 34,740 in 1987.

In store count, K mart leads the region with 215 units. Long Island, with its high land costs and incomes, remains one of the few major markets in the region without a K mart.

The region boasts the first East Coast hypermarket, Carrefour's new unit in Philadelphia. But plans for a second Carrefour on Long Island are being held up by a zoning dispute.

Ames and Jamesway, two regional chains, operate 111 and 93 stores, respectively, in the three states.

In store count, three other major chains are closely bunched: Hills, 59; Bradlees, 54; and Caldor, 50. Zayre operates 31 stores.

The catalog showroom industry is well developed in the region, with a total of 191 outlets, including: Best Products, 17; Service Merchandise, 27; and Consumers Distributing, 74. The total includes a number of regional chains, such as David Weiss Jewelers, 18 units in Pennsylvania only, and The Present Company, 20 units in New York.

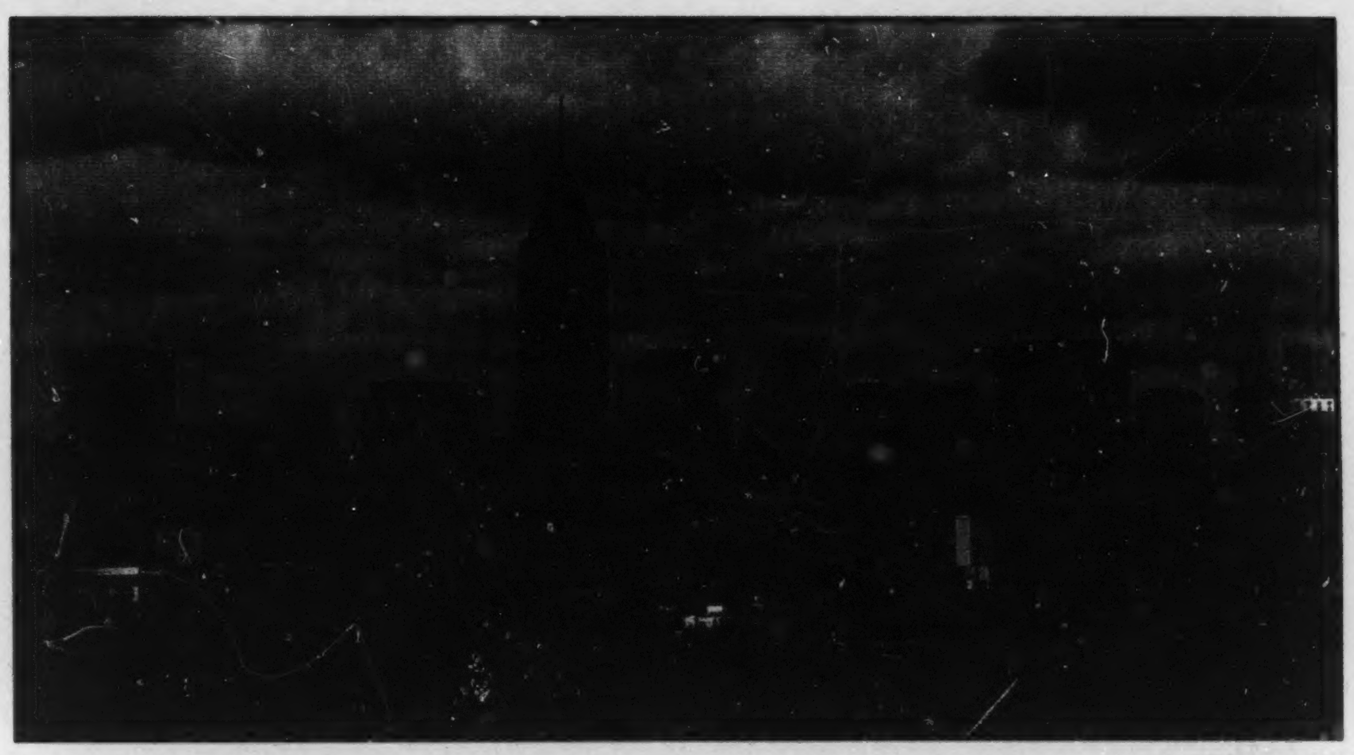
The region has 15 warehouse clubs: BJ's, nine; Price Club and PACE, two apiece; Makro, one; and Net Cost Club; an independent, one.

Independent chains operating primarily within Pennsylvania include: Gee Bee, Johnstown, 17 units; Laneco, Palmer, 16 (including two in New York); Mailman's, York, six; and Sugarman's, Eynon, three.

The New York metro market has spawned two local chains: TSS-Seedman's, 16 stores, primarily on Long Island; and Alexander's, 13 stores, including two in Northern New Jersey.

Philadelphia:

Many Discount Formats Battle for Dominance



Increased competition has discounters in Philadelphia fighting for market share.

PHILADELPHIA — All right; so The City of Brotherly Love did slip to fifth place in the United States in population in 1986 from fourth place in 1980. Still, "It's a good discount town," said Robert Hayes, corporate economist for K mart.

The eight counties that comprise the Philadelphia market, including three across the Delaware River in New Jersey, "have a degree of sophistication that enables them to accept new ideas," Hayes said. And their workers, once predominantly blue collar and unionized, enjoy high incomes, he said.

Philadelphia always has been a good market for K mart, the economist said. "It's one of the areas being 'discovered.' "

Carrefour discovered Philadelphia back in February, opening its first hypermarket in the United States and the first on the Eastern seaboard.

Boscov's, a promotional department store chain based in Reading, Pa., discovered more potential in Philadelphia last fall. It opened two more of its Ports discount stores in former department store buildings acquired from Campeau, pushing the count for its fledging chain of soft lines discount stores to four.

Net Cost Club discovered Philadelphia in November 1986, introducing it to the warehouse club concept. Makro and BJ's Wholesale Club discovered that the metro market can support two additional warehouse clubs.

In the early '80s, Bradlees and Caldor learned that their upscale approach to discounting could break the discounting oligopoly that K mart and Clover, the discounting chain that Strawbridge & Clothier started in 1971, once enjoyed.

And Jamesway and Ames, traditionally shooting for small town markets, discovered they could exist on the periphery of a major metro market with a population of 4.9 million.

Family Dollar and catalogers Best Products and Consumers Distributing have discovered that they could capture slivers of the discount market with a handful of stores apiece.

In the early '80s, Philadelphia significantly lagged behind the national economy in growth, but it has caught up in the last two years, said Mark Zandi, director of regional forecasting for the WEFA Group, Bala Cynwyd, Pa., economic forecasters.

Philadelphia SMSA: Discount Store Count

Chain	Stores
K mart	30
Clover	19
Bradlees	15
Ames	11
Jamesway	11
Best Products	8
Consumers Distributing	5
Family Dollar	5
Caldor	4
Ports	4
BJ's Wholesale Club	2
Carrefour Hypermarket	1
Makro	1
Net Cost Club	1
Total:	117

Source: DSN research

The unemployment rate for Philadelphia is running at 4.2 percent, lower than the 5.6 percent national rate, the WEFA economist said.

Zandi projects that the number of wholesale and retail jobs in the market will increase 0.9 percent in 1988 to 503,200 from 497,700 last year. The total of all jobs will increase 1.9 percent, or 40,000, to 2,197,000 from 2,156,000 in 1987.

Labor Shortage a Problem

Because of the tight labor market, retailers here are having trouble finding qualified workers and must pay higher wages than elsewhere, Zandi said. Carrefour, for example, pays $5 an hour to the youngsters who roller skate around the cavernous hypermarket for price lookup, he said.

The number of housing starts should total 20,000 in 1988, high by Philadelphia standards, although below the 1987 rate of 23,900, Zandi said.

Personal income will grow 7.2 percent to $84.6 billion in 1988, from $78.8 billion last year. Although the growth rate in current dollars is 6.4 percent for the nation as a whole, adjustment for higher prices in Philadelphia, particularly for housing, reduces the growth in real income below the national rate.

K mart, with 30 stores in the metro area, and Clover, with 19, (soon to be 20) "pretty much had the discount market to themselves," said Arthur Keough, director of the Retail Council of the Greater Philadelphia Chamber of Commerce.

With increased competition, discounters now are fighting for market share, he said. "In terms of longevity, there's no question that Clover is dominant," Keough said.

"The votes are still out on Carrefour," he added. Judging by ads, Carrefour seems to be the price leader for general merchandise, he said.

Makro, which K mart just bought as a way to get into the warehouse club business, doesn't appear to have made much of an impact on the Philadelphia market, Keough said.

All of Philadelphia is a "price discount" market, even on food, said Mercia Grassi, professor of marketing and director of the International Forum on Marketing, Drexel University. The Philadelphia economy, on the upswing, provides a lot of jobs, Grassi said. "Consumers here will spend for value. The area has so many chains that no one is dominant," she said.

"Clover will survive because it's Strawbridge's," Grassi said. "The Strawbridges are phenomenal merchants at providing value and service, and own the older market."

Carrefour "has done its homework," Grassi said. "It's sensitive to the price-oriented Philadelphia consumer who demands value for his money."

Its prospects for survival are good, she said. "I'm waiting to see what changes" K mart will make with Makro, Grassi added.

K mart chairman Joseph Antonini told a group of New York analysts last month that he plans to institute a "serious reorientation of the general merchandise part" of Makro's business.

"If anybody can do it, it's K mart," Grassi said, "but the jury's still out."

Caldor, K mart and Clover all are getting ready to open one additional store in the Philadelphia market this year, said an executive of a chain who asked to remain nameless.

Surveys of consumer perception show that K mart and Clover are the two top chains, while Bradlees trails in the No. 3 spot, according to the executive's research.

Makro has had little impact on the Philadelphia market, the executive said, and Carrefour is affecting mainly supermarkets rather than general merchandise chains.

A question mark hangs over the future of Bradlees' southern district stores, the executive said. A recent press report said that Boston-based Stop & Shop, its parent, intends to sell 50 of its Bradlees units from Philadelphia south.

'No Bradlees Are For Sale'

Rumors about selling the stores have been circulating since Stop & Shop went private in February (to avoid a takeover attempt by the Dart Group), a Bradlees spokeswoman said. "None of the stores are for sale," she said.

Although no offer to sell has been made, Clover would be interested in acquiring some of the 15 Bradlees in the Philadelphia market—the ones that don't compete with its own stores—the executive said.

Ports, the expanding discount chain of Boscov's Department Stores, runs "an extremely heavy volume of newspaper advertising" and provides added new competition to established chains, such as Clover, the executive said.

Ports, originally named Ports of the World, offers no automotives, hardware or sporting goods, but offers all other traditional department store goods at discount prices, including much of the same brand name apparel that Boscov's carries.

"I'm not too impressed with Carrefour," said a nearby K mart store manager. "I've shopped them, and my store carries just as many sku's [of general merchandise], but they're spread out over three or four times the area. Except for endcap specials, prices are the same or higher," he said.

Carrefour, whose forte is food, prompted a nearby Shop Rite supermarket to slash prices, the K mart manager said, a move that brought its lost customers right back.

Makro doesn't appear to be doing a tremendous amount of business, he said, and needed K mart capital to expand.

Bradlees and Caldor are slugging it out for the same upscale customers, according to the K mart manager, adding that Bradlees has changed its advertising recently, to a generic format from one emphasizing specific goods.

K mart has no one primary competitor, the manager said, giving credit to Clover as a promotional chain that engages in a good advertising program. "Some of their stores are nice," he said, "and others aren't so nice. They're spotty."

Bradlees is the major competitor for Caldor, a Caldor store manager said. "Bradlees carries most of the same merchandise that we do at the same price," he said.

Price Comparisons

At Clover and K mart, some things are cheaper than at Caldor, he said.

He estimated that Carrefour carries only about 8 percent of the general merchandise items that Caldor offers, so it is affecting food stores more than general merchants.

Makro is a hybrid, explained the manager of a BJ's Wholesale Club, rather than a true warehouse club. He said Makro carries 21,000 sku's compared to 4,500 for a BJ's.

"I'm settling back and waiting to see what K mart does [with Makro]. It makes sense to join the rest of the warehouse industry, rather than stand alone."

Carrefour is providing a "a little bit of competition" to BJ's, primarily in food, he said.

The BJ's in Maple Shade, N.J., "is doing tremendously well," he said, while the newer BJ's in northeast Philadelphia that opened last September is "running slightly below projections but is expected to get on track by the fall."

"The general economy appears to be pretty healthy," the BJ's manager said. "There isn't a tremendous amount of unemployment."

Makro will reduce sku's now that K mart has bought a 51 percent interest, said Greg Hanselman, vice president for store promotion. But it will never get down to the 4,000 sku level of a BJ's, he said. A hybrid label for Makro is accurate, Hanselman said, describing his store as "an upscale warehouse club" that carries department store brands of apparel.

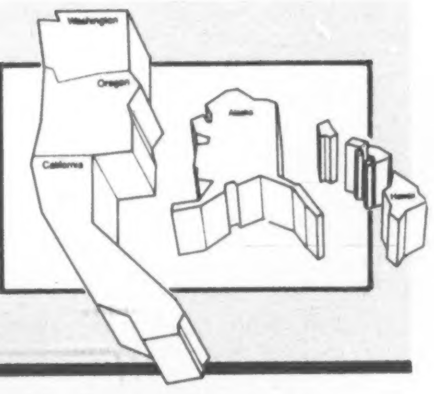
Problems with real estate rather than capital have hampered plans to add two more units in the Philadelphia market, Hanselman said. A proposed site in Cherry Hill, N.J., fell through because of zoning, he said. Although Makro has lined up another site in New Jersey, Makro won't be able to open until 1989 or even 1990, he said.

Makro expects to find another site in Philadelphia and open a second unit next year, he said.

Regional Analysis:

Pacific

Washington • Oregon
California • Alaska • Hawaii



California Leader in Diversification

Pacific Snapshot

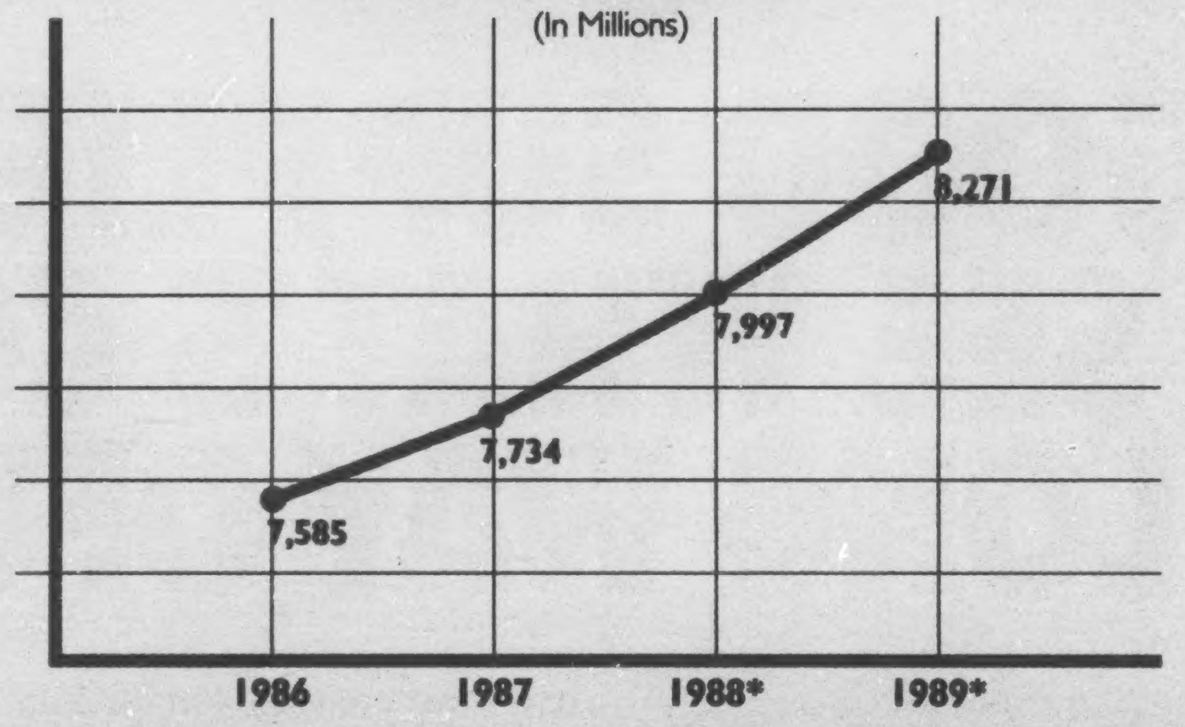
The Pacific states' economy is dominated by diversified California which continues to grow faster than the United States. The real stories in the past year have been elsewhere, however. Oregon and Washington are growing faster than usual, propelled by lumber and paper demand. While housing starts are in decline, the drop in the dollar is boosting exports. Alaska is among the weakest of states in the nation with almost the highest unemployment rate. As with the West South Central states, Alaska will remain soft through 1989.

Through 1989 the region will be slightly stronger than the nation. California will remain strong, but the high growth rates in Oregon and Washington should stabilize.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Alaska	(0.6%)	11.1%
California	4.0	5.8
Hawaii	3.2	3.3
Oregon	4.5	7.2
Washington	4.7	7.8
Total:	4.0	7.0

Pacific Discount Store Sales

(In Millions)



*projected

Source: DSN, Mount Economic Consulting

Encompassing five Western states, the nation's Pacific region is dominated by California, with the Golden State's diversification providing a strong base for survival under varied economic climates.

Washington, Oregon and Hawaii also provide strength to the region's general economy, but Alaska continues to struggle under the drop in oil demand and high unemployment rates.

Despite Alaska's negative drain, the region generally registers as one of the nation's strongest areas and local economists expect this trend to continue in the coming months.

The most recent unemployment level for the region, posted in March of this year, was 5.7 percent, according to the U.S. Census Bureau. And while unemployment has remained at low levels, 6.0 percent for all of 1987, the population has continued to grow.

As of July 1, 1987, the Pacific Region reached 36.5 million people, up from 35.7 million people in 1987 and up 14.9 percent since 1980. Leading the growth during the last seven years is Alaska, where population grew 30.7 percent, and California with a 16.9 percent growth. However, Hawaii's population sprang up 12.2 percent, Washington's grew by 9.8 percent and Oregon's numbers grew slightly, by 3.4 percent.

Typically Better Job Market

What drew many of the people to the Pacific region during this time was typically the better job market. Although many once-economically strained parts of the country have regained some momentum of late, most of these states still present some of the best growth prospects nationally.

Unlike many areas, the Pacific region holds a diversity of job sectors, ranging from the lumber industry in the Pacific Northwest to the computer chip business in Northern California's Silicon Valley to the heavy military/defense spending in parts of Southern California.

Tapering in Defense Spending

While defense spending is expected to taper off somewhat in the coming months, economists and area retailers still believe the majority of the Pacific region will continue to prosper. Already the area is benefiting from the lower dollar value vs. the Japanese yen, with exports picking up and foreign investment pumping in new monetary resources.

The investment in the region is apparent in many areas, particularly Hawaii, because of its closer proximity to the Orient, and the state is expected to continue to receive further capital injections, according to Carol Bray, assistant vice president and regional economist for First Interstate Bank.

The Pacific Northwest is also benefiting from the lower dollar by increased trade and improved demand for natural resources such as lumber. After suffering from several recessions in the past, Washington and Oregon have taken steps to better insulate themselves from future downturns.

Lumber mills have been upgraded and modernized, and in Seattle, the economy is benefiting from recent large commercial aerospace orders, which will supply jobs over the next few years and will not be affected by defense cuts, explained Wells Fargo Bank economist Bob Skinkle.

However, as retail analyst Sarah Stack with Bateman Eichler, Hill Richards noted, there are pockets of prosperity throughout the region. While the coastal areas of the Pacific Northwest are prosperous, the eastern agricultural regions are still somewhat depressed.

Still, discounters have recently become more interested in the Pacific Northwest, entering markets well-established by local chains like Fred Meyer and Pay Less. This July, Target will open its first wave of stores in both Oregon and Washington and the chain expects to have 35 stores in operation within the next five years. ShopKo entered the market already and is planning additional stores.

While these chains invade Fred Meyer's territory, the one-stop-shopping retailer is still expanding, experimenting with varied concepts and is taking a limited version of its stores to some areas of Alaska. Alaska, however, remains depressed as the state still fights to overcome the oil price drop. According to Bray with First Interstate, Alaska will still see economic decline this year, but the drop should stop in 1989.

Beyond four Fred Meyer stores, the only other discounters in Alaska are Costco with one site and Price Savers also with one site—national retailer K mart is not in the state.

Most discounters have instead turned their attention to California, as the state remains the total population and job leader for the region. Population in California reached 27.6 million as of July 1987, with Los Angeles-Anaheim-Riverside Counties in Southern California holding 13.1 million people as of July 1986.

While general interest has held steady over much of California, it is the Southern portion which still rates most of the attention from retailers.

Here, discounting proliferates in all forms, from traditional discounters to membership warehouse clubs to small and large off-price apparel chains. Although the area formerly supported several general merchandise discounters, chains like Zody's and Gemco have folded in recent times leaving behind primarily K mart and Target.

> ***In Southern California, discounting proliferates in all forms, from traditional discounters to membership warehouse clubs to small and large off-price apparel chains.***

While Target picked up many of the Gemco sites and business, the membership warehouse clubs have also made a significant dent in the discount industry. Including Price Club's initial membership warehouse creation, Southern California has also spawned several new forms of retailing, proving a generally good breeding ground for new enterprises.

Innovative home furnishing retailers Home Express and STOR began here as did numerous off-price chains and specialty warehouse clubs such as All American SportsClub and the Price-Rite health and beauty aids warehouse.

Economists expect Southern California to remain a good market for retailing, although a very competitive one. "Southern California in particular will continue to represent the retail market with the most potential," explained analyst Stack. However, she pointed out the potential for unit growth is limited unless retailers enter the Inland Empire east of Los Angeles or acquire space through acquisition.

And because California is expected to fare well in coming months, while most of the region's other states hold to steady growth, the entire area should remain economically strong.

"There are a lot of positives that we see for spending in the West . . . and on the whole we are seeing a stable growth pattern," said Wells Fargo's Skinkle.

Pacific Region: Discount Store Count

Chain	Stores	Chain	Stores
K mart	214	G.I. Joes	11
Pay Less	208	PACE	9
Pic 'N' Save	98	Hartman's	9
Target	82	Fedco	9
Fred Meyer	72	Price Savers	8
Best Products	48	Gem of Hawaii	5
Bi-Mart	33	Holiday Mart of Discount Department Stores	3
Costco	28	ShopKo	2
Price Club	24	Jewelcor	2
Yellow Front	15	Buyer's Club	1
Service Merchandise	13		
Total:			**894**

Source: DSN research

San Diego:

Military, Tourism Put Dollars in Retailers' Pockets

SAN DIEGO — San Diego County—ranked second in California's population behind Los Angeles—attracts residents, employers and retailers alike for its many natural attributes and prime Western locale.

Covering some 4,255 square miles and filled with slightly over 2 million people, San Diego County offers miles of beaches, natural and man-made bays, the nation's most popular zoo, and easy access to Mexico and nearby deserts.

These attractions helped to bring 30.4 million visitors to the area in 1986, which made tourism the third largest revenue producing industry in San Diego, according to the *San Diego Union/Tribune*'s Annual Review of San Diego Business, 1987.

However, leading the city's economy is manufacturing in aerospace, electronics, ship building, apparel, food, oceanics and biomedical equipment. Much of the valued $11 billion in manufacturing products produced in San Diego are directly related to federal defense spending contracts, according to the San Diego Chamber of Commerce.

Reliance on Defense Spending

This economic reliance on defense spending is furthered even more by the presence in the city of the largest naval complex in the free world and a major Marine Corps base. According to the city's commerce department, the total economic impact on the area totaled some $8.27 billion in 1986, making the military the third leading economic source.

While San Diego has diversified its economic base somewhat in recent years, the military/defense industry still exerts a great influence on the area, and the city could be hurt in the future if defense spending is cut significantly.

The government has already announced that some San Diego-based ships will be retired early and others moved, while local analysts expect defense contracts to start dropping by 1 percent to 2 percent a year.

Presently, the military employment position is holding relatively steady, but the fastest growing major employment categories have been construction, finance/real estate and services, according to a recent report by First Interstate Bank.

The dominance by Price Club, discounters and promotional chains has given the industry a secure footing in San Diego. However, like in many areas of the country, while future retail sales are expected to continue to increase, inflationary adjusted dollars will show little growth in retail sales for San Diego, analysts say. So, this climate is expected to produce an especially competitive environment in the city as retailers jockey for improved market share.

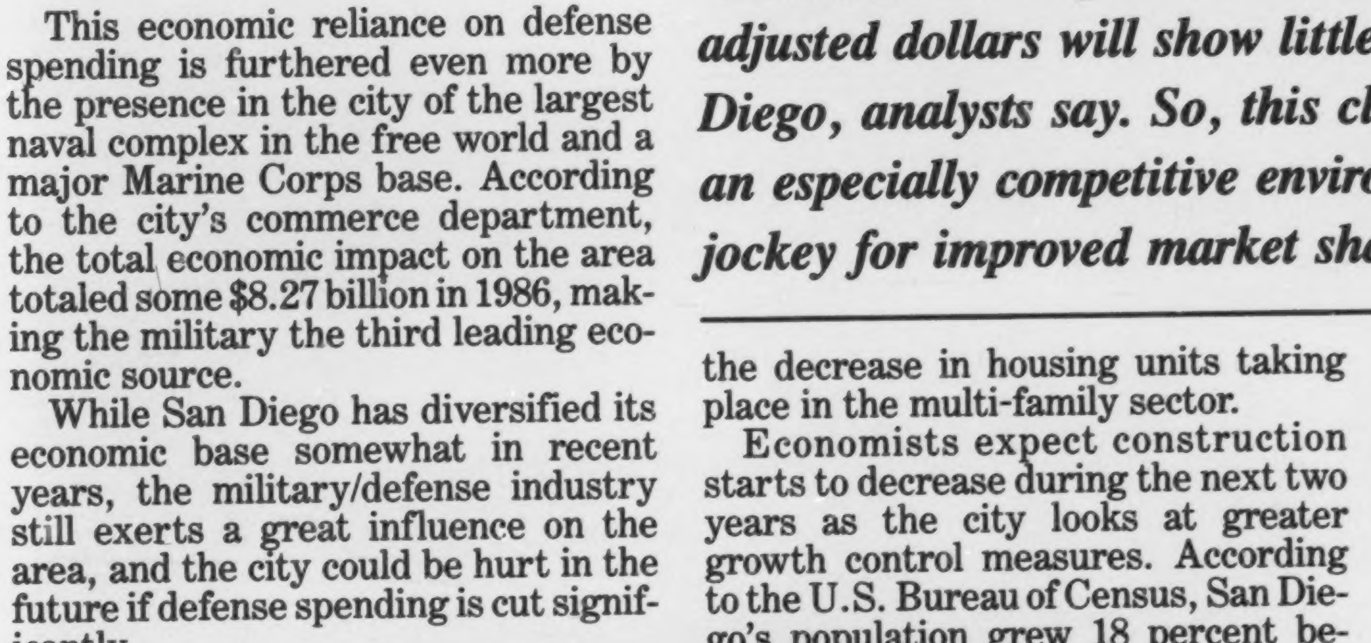
Although construction employment has grown, permits for new residential and non-residential buildings were actually down during 1987, with much of the decrease in housing units taking place in the multi-family sector.

Economists expect construction starts to decrease during the next two years as the city looks at greater growth control measures. According to the U.S. Bureau of Census, San Diego's population grew 18 percent between 1980 and 1986, placing the area as the nation's 19th largest city in the nation.

Unemployment rates for the area have fallen below the national and California averages for several years, as shown by the 1986 level of 5 percent in San Diego compared to 7 percent nationwide and 6.7 percent in California.

While a defense/military and construction drop are forecast and the unemployment rate is expected to go up slightly, San Diego is not without future positive economic elements.

Because of the devaluation of the U.S. dollar compared to the Japanese yen, many of the West Coast's Pacific Rim cities—including San Diego—have been provided with a boost in export activity, while incoming foreign investment is also providing an increase in economic growth.



Consumers rated local Price Club as the leader for their most recent purchases of small electrical kitchen appliances, auto tires, bicycles and cameras. (DSN photo)

Additionally, the possibility of hosting sailboat racing's America's Cup still exists, which could put the city in the national limelight and bolster tourism. San Diego has already received attention this year by hosting the Super Bowl.

Many of these tourism dollars fall directly into retailers' pockets, particularly with the existence of Horton Plaza in the city's rejuvenated downtown area. The downtown sector is expected to take on added importance when a convention center which is currently under construction opens.

Together, tourists and San Diego County residents spent some $11.6 billion in 1986, up 7.3 percent from 1985, while total retail outlets between the two years grew by 6.4 percent, according to the *Union/Tribune* report.

The major retail outlets for these dollars are located in 10 large regional malls, 13 mid-size regional shopping centers, and 11 theme and specialty centers. Discounters in San Diego are primarily found in mid-size malls and numerous neighborhood strip centers.

While many of the city's shopping centers are spread throughout the area, much of the new retail growth is currently taking place in the north county, coinciding with the majority of new housing developments.

Spending at retail is based on an average disposable family income for the area of $26,674 as of 1986—a figure some area retail specialists said is somewhat low for Southern California but attributable to the heavy military personnel concentration.

So the general San Diego consumer "is looking for value" in his retail purchases, explained Nancy Johnston, managing partner with Epsteen & Associates, a commercial real estate firm in San Diego.

In search of value, San Diegans frequently take to area discounters. Both Target and K mart have 11 locations each, while Fedco has two, Pay Less five, and Pic 'N'Save six. Off-price apparel chains Marshalls, Ross and T.J. Maxx operate eight, four and three stores, respectively. Best Products is also present in addition to several smaller off-price chains and a few promotional electronics retailers.

Price Club Locations

Also in the market is Price Club with four locations. Although this number is less than half of what Target and K mart each offer, the membership warehouser is the leader in many general merchandise categories.

According to the Continuing Analysis of Shopping Habits study for San Diego by the *Union/Tribune*, Price Club was continually cited in the upper ranks by consumers who were asked where they made their most recent purchase for a given item.

For example, in many major appliance categories—such as microwave ovens, television sets and VCRs—Price Club ranked No. 1, with market shares ranging from 12.8 percent to 14.4 percent.

Similar findings showed Price Club as the leader in small electrical kitchen appliances, auto tires, bicycles and cameras. The membership warehouser also ranked high as a supplier of hand and power tools, domestics, car batteries and toys. In fact, in toys, Price Club's 13.2 percent share was exceeded only by Toys "R" Us.

However, K mart and Target did command a respectable showing in many of the categories, as did the former Gemco stores. Since some of Target's 11 stores are former Gemcos, presumably its market share will increase.

San Diego: Discount Store Count

Chain	Stores
K mart	11
Target	11
Pic 'N' Save	6
Pay Less NW	5
Price Club	4
Fedco	2
Total:	39

Source: DSN research

Another San Diego leader, particularly in many apparel categories, was highly promotional soft goods retailer Mervyn's. It was ranked No. 1 in many children's clothing categories and also rated the No. 1 spot in domestics.

The dominance by Price Club, discounters and promotional chains has given the industry a secure footing in San Diego. However, like in many areas of the country, while future retail sales are expected to continue to increase, inflationary adjusted dollars will show little growth in retail sales for San Diego, analysts said. So, this climate is expected to produce an especially competitive environment in the city as retailers jockey for improved market share.

Marketing

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1988

Retailers Communicate to Differentiate

"We formulated a hypothesis about the general merchandise industry, which includes the discount stores; the large super drug stores, such as Pay Less; and the traditional Big Three of Sears, Penny and Ward. As a group, there is a sameness to what they offer. Merchandise is reasonably similar across all of the competitors.

"All of us, through one means or another, are attempting to persuade consumers that we are the value store . . . And all of us, in one way or another, are concentrating on serving customers better. To separate yourself from the pack, you must communicate much more effectively with your customer. That is our marketing communication's proposition."

—Joseph Antonini, chairman
K mart Corp., Troy, Mich.

Nationwide DSN Report

The expected sluggishness in the retail atmosphere over the next six to 18 months will challenge discount store marketing executives to develop new and sophisticated ways of differentiating their stores from the competition.

The nation's smartest marketers are leaving no stone unturned as they use myriad forms of media to communicate more effectively with their customer.

Print advertising continues to be the preferred form of communication for most general merchandise retailers. While newspapers have faced problems of declining readership and the rising cost of newsprint, most are making concerted efforts to be more responsive to their retail customers.

"The attitude of today's newspaper publishers is much more alert to advertisers' needs," said William Dean Singleton, president of MediaNews Group, publisher of several daily newspapers, to a gathering of discount store marketing executives at the International Mass Retail Association's Advertising Conference held earlier this year.

Cost Efficient Demographics

Citing the greater fragmentation of television viewership due to the proliferation of cable channels, Singleton claimed that in the 1990s, newspapers "will be the only medium that can offer a cost-efficient 60 percent of the marketplace, at the same time with better [more upscale] demographics."

Paul Hingham, vice president of advertising for Minneapolis-based Target Stores, refused to be drawn into a comparison between the effectiveness of newspaper and television advertising. "The biggest waste of time is to compare print to TV," said Hingham, who will serve as chairman of the IMRA Advertising Executives Council next year. "You can't measure them the same way. TV provides a unique sales proposition—movement, sound, color—while print is archival and appropriate for showing many items."

Hingham did note that the "level of receptiveness" of newspaper publishers to retailers' needs is "at an all-time high." Newspapers' decline in household penetration "has really bottomed out," said Hingham. "As baby boomers mature, they are picking up the habit of newspaper readership. Like it or not, newspapers are our best method of reaching our target customers."

Singleton of NewsMedia also noted that newspapers are stepping up efforts to convert retailers' inserts into run-of-press lineage. Promotional "blockbuster" programs which offer a large discount off the ROP rate for an eight-page or more ROP ad section are being developed by an increasing number of daily newspapers.

Circulars continue to offer retailers their best opportunity to showcase a wide range of products, but many discounters are reevaluating their use of circular programs.

K mart, for example, returned to a once-a-week circular program from a twice-a-week program, but dedicated itself to showing the best merchandise fully in stock throughout the entire seven-day life of the ad. While the frequency of the circulars has been cut in half, the size of the program in terms of pages of advertising will be about the same in 1988 compared to 1987. In addition, K mart is now breaking its ads on Sunday in metropolitan markets, while approximately 600 stores not serviced by a Sunday newspaper still break their ads at midweek.

"In the future, we are going to use more magazine advertising, more ROP advertising, more radio advertising, more outdoor advertising and especially, more television advertising," said chairman Joseph Antonini recently to a group of retail stock analysts.

As Hingham pointed out, television commercials provide retailers with a unique way of getting their message to their customers. Hills Department Stores, based in Canton, Mass., devotes 58 percent of its ad budget to broadcast media and close to 50 percent of ad expenditure to television, said Wes McDonough, vice president, advertising.

Hills' TV commercials tend to be institutional image spots—"sell-the-store type of advertising," said McDonough at the ad conference. Hills operates an in-house ad agency, called Compton Inc., to buy air time and produce its TV commercials. About 60 institutional and 100 vendor-paid spots are aired annually.

One way Hills breaks the commercial clutter is by utilizing its own employees as spokespeople in the commercials. Ray Brinkman, senior vp of operations, is "the single biggest star we created," said McDonough. Using inexperienced talent "adds to the credibility" of the spots.

Whether they use television, print, radio or billboard advertising, one problem all retailers face is understanding the characteristics and needs of their customers. Because of its size and spending power, the most intensely-courted and oft-analyzed customer group is the baby boomer generation.

According to "The Boomer Generation as Consumers, Implications for Marketing Strategy," a report conducted by Yankelovich Clancy Shulman for *People* magazine, the boomer generation is not one gigantic, homogenous market. The study reveals three distinct segments driven by three different sets of needs. "Marketers who provide information—that all segments seem to want—and stress quality, status and price have the best chance of being successful," said Robert L. Cohen, vp for the Westport, Conn., consulting firm.

The report identifies 26.9 million young adults as self-stylers, and suggests that advertising strategies to this group should focus on inherent quality, stressing product performance. These boomers tend to shop in fine department stores, specialty shops and upscale boutiques.

Another 23.6 million boomers are psychographically defined as materialists, motivated by prestige and status and willing to spend for the most prestigious "badge" they can afford. This does not necessarily mean the most expensive product, but rather the products that will be noticed and help them to exude a positive image and to create favorable impressions. Materialists are most likely to shop in chain department stores.

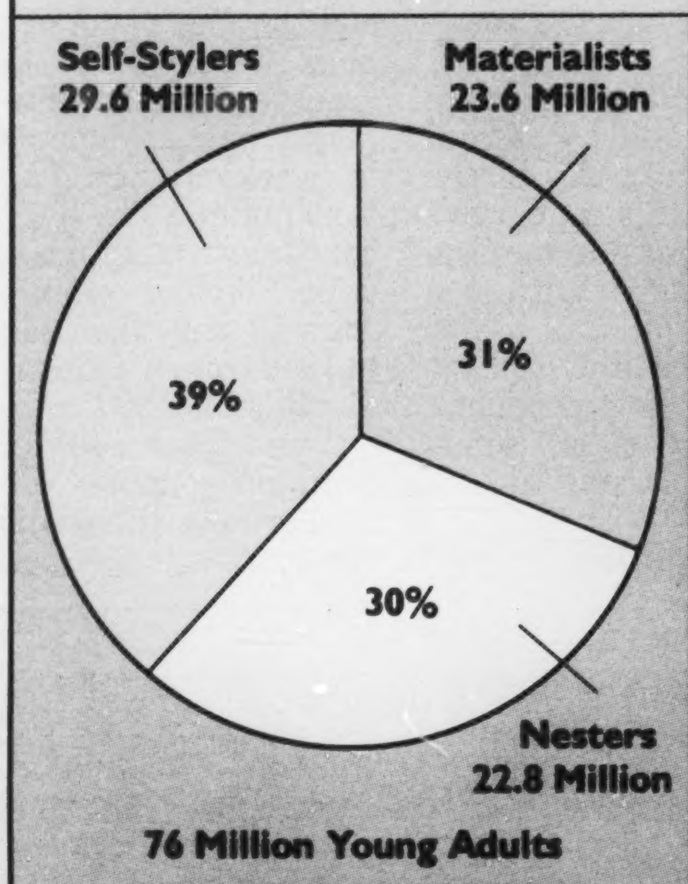
The 22.8 million nesters tend to be young, growing families. They appreciate products that are durable and practical. They are the most price-conscious of the boomers, and promotions have the greatest impact among this segment. They shop at outlets that promise lower prices: chain department stores and mass merchandisers.

Additionally, the Yankelovich survey found that all three segments exhibited a need for greater depth of information about the products they buy. Given that hypothesis, the study asks, "Is information gap-filling a key to successful loyalty building and new customer strategies?"

The survey notes that while brand names are not as important as they once were, the branding concept appears to be on the upswing. "For young adults in particular, we have seen its importance in this study."

The Baby Boomer Generation as Consumers

Three main psychographic segments drive consumption in the baby boomer generation.



Source: Yankelovich Clancy Schulman

- **Self-Stylers** are most likely to be internally driven, to be independent-minded and to believe there is no right or wrong way to live. They tend to set their own styles and are the segment most interested in travel and entertainment, tending to spend their money in ways to enrich their lives—travel, restaurants, theater, etc.

* * *

- **Materialists** place a great deal of emphasis on owning the right things, wearing the right clothes, driving the right cars, living in the right homes—whatever it takes to be in step with the crowd. Doing these right things is a source of personal satisfaction to them—an indication that they've made it.

* * *

- **Nesters** are not especially driven by a need to travel, to achieve personal fulfillment or money. Neither approval from others, physical exercise nor attractive homes drive their behavior. Nesters are family-oriented people content with the simple things in life, struggling to make do on a modest budget in an increasingly expensive world.

Breakdown of 76 Million Baby Boomers
Demographic/Lifestyle Profile

	Self-Stylers	Materialists	Nesters
Median Household Income	$31,000	$26,000	$27,000
Average Age	29	28	30
Age			
20-24	25%	33%	19%
25-29	27	25	27
30-34	24	22	28
35-39	24	19	26
Married	53	57	66
Children Living at Home	54	64	67
Dual Income Households	25	22	20
Female	50	54	49

Source: Yankelovich Clancy Schulman

Discounters Boost TV Expenditures

Leading Discount Store Television Advertisers in 1987

	1986			1987			Percent Change
	Network TV	Spot TV	Total TV	Network TV	Spot TV	Total TV	
K mart	$26,332,900	$14,144,300*	$40,477,200	$18,238,300	$22,343,500*	$40,581,800	NC**
Wal-Mart		30,179,500	30,179,500		30,136,300	30,136,300	NC**
Circuit City		16,286,000	16,286,000		26,353,800	26,353,800	62%
Highland		18,830,200	18,830,200		22,566,800	22,566,800	20
Target		12,405,500	12,405,500		15,521,200	15,521,200	25
C&R Clothiers		8,917,400	8,917,400		13,798,200	13,798,200	55
Burlington Coat		11,047,800	11,047,800		12,621,900	12,621,900	14
Zayre		9,320,500	9,320,500		12,557,400	12,557,400	35
Toys "R" Us	2,056,800	10,123,200*	12,180,000	3,049,600	8,080,800*	11,130,400	(9)
Hills		9,819,600	9,819,600		10,998,900	10,998,900	12
T.J. Maxx		6,395,000	6,395,000		9,435,900	9,435,900	48
Silo		7,933,600	7,933,600		8,838,500	8,838,500	11
Federated Group		7,513,100	7,513,100		7,316,200	7,316,200	(3)
Best Buy		3,246,600	3,246,600		6,358,200	6,358,200	96
Fred Meyer		4,552,000	4,552,000		6,180,700	6,180,700	36
Ross Stores		5,316,200	5,316,200		5,717,400	5,717,400	8
Bradlees		4,852,600	4,852,600		5,291,900	5,291,900	9
Newmark & Lewis		4,776,400	4,776,400		5,059,700	5,059,700	6
Marshalls		10,750,200	10,750,200		4,950,300	4,950,300	(54)
The Men's Wearhouse		2,686,200	2,686,200		4,898,900	4,898,900	82
S & K Famous Brands		3,046,400	3,046,400		4,295,300	4,295,300	41
Venture		3,279,300	3,279,300		4,243,900	4,243,900	29
Meijer		2,822,800	2,822,800		3,988,800	3,988,800	41
Rose's		3,352,300	3,352,300		3,690,800	3,690,800	10
Value City		564,100	564,100		3,471,400	3,471,400	515
Total Top 25:	$28,389,700	$212,160,800	$240,550,500	$21,287,900	$258,716,700	$280,004,600	16

**Includes barter syndication advertising.*
Co-op advertising by these advertisers is not included. BAR credits this activity to the vendor.
***NC—no change*

Source: Television Bureau of Advertising from analysis of Broadcast Advertisers Reports data. Spot data is based on BAR monitoring in the top 75 markets.

Nationwide DSN Report

Two specialty discount segments comprised the largest number of new additions to and deletions from the Television Bureau of Advertising's list of the top 25 discount chain television advertisers of 1987.

Three off-price apparel chains, with TV ad budget increases ranging from 41 percent to 82 percent, joined the top 25 ranking, replacing two consumer electronics chains and a hard goods, electronics and appliances specialist.

Overall, the top 25 discount store television advertisers spent 16 percent more on TV in 1987 than 1986. Continuing a trend from previous years, most of the $280 million spent by the leading advertisers was devoted to spot ads in the top 75 TV markets.

Culver City, Calif.-based C & R Clothiers increased its TV ad expenditures by 55 percent to become the sixth top TV discounter advertiser last year, spending $13.8 million in 1987 compared to $8.9 million in 1986.

Men's Wearhouse Spend 82% More

Houston, Texas-based The Men's Wearhouse became the 20th top discounter TV advertiser in the nation last year by spending 82 percent more than 1986. Another off-pricer, Richmond, Va.-based S & K Famous Brands, increased its TV budget by 41 percent, moving into the 21st slot behind The Men's Wearhouse.

Other off-price apparel chains also found a happy medium on TV. Framingham, Mass.-based T.J. Maxx increased its TV budget by 48 percent, and Newark, Calif.-based Ross Stores hiked its TV budget by 8 percent.

Burlington Coat dropped one notch to the seventh top discounter TV advertiser in 1987. The Burlington, N.J.-based retailer increased its television spending by 14 percent to $12.6 million from $11.0 million in 1986.

One off-pricer, Lynhurst, N.J.-based Sym's, fell off the list from its 22nd place ranking in 1986. Wakefield, Mass.-based Marshalls accounted for the largest percentage decrease in TV spending among the top TV advertisers. The giant apparel specialist slashed its TV advertising in half in 1987, spending 54 percent less, a mere $5 million investment from the $10.8 million it spent in 1986.

Consumer electronics chains absent from the 1987 list are Livonia, Mich.-based Fretter, which held the 13th rank in 1986, and Edison, N.J.-based Crazy Eddie, the 19th largest discounter TV advertiser in 1986. Woburn, Mass.-based Lechmere, a combination consumer electronics and hard goods specialist, slipped off the chart from the 25th spot in 1986. The financially troubled Federated Group, purchased by Atari last year, reduced its TV ad spending by 3 percent.

Three off-price apparel chains, with TV ad budget increases ranging from 41 percent to 82 percent, joined the top 25 ranking, replacing two consumer electronics chains and a hard goods, electronics and appliances specialist.

While some CE chains reined in their TV expenses, others became more aggressive in 1987. Minneapolis-based Best Buy, in an aggressive expansion effort last year, nearly doubled its TV ad budget, spending over $6 million. Circuit City, up 62 percent; Highland Superstores, up 20 percent; and Silo, up 11 percent, showed that electronics specialists still depend upon TV to get their message out.

For Circuit City, the nation's leader in consumer electronics retailing, television advertising has been such an important investment that it has maintained a hefty increase in its budget since 1985.

Between 1985 and 1986, Circuit City increased TV ad spending by 160 percent, snaring the fourth ranking on the top 25 list. Between 1986 and 1987, it increased TV spending by an additional 62 percent, moving up one notch to take over the third top slot. The Richmond Va.-based consumer electronics leader increased TV spending from $6.3 million in 1985 to $16.3 million in 1986 and to $26.4 million in 1987.

Circuit City's aggressive TV spending relegated Highland Superstores to the fourth ranking despite a 20 percent increase in TV spending by the Taylor, Mich.-based CE chain. Highland spent $22.6 million on TV ads in 1987, up from $18.8 million in 1986.

Among full-line discounters, the largest percentage increase in TV spending, albeit on a small base, was registered by Columbus, Ohio-based Value City, which spent 515 percent more than last year to take over the 25th position on the chart.

Despite flat spending, K mart and Wal-Mart upheld their rankings as the top two discounter TV advertisers.

Troy, Mich.-based K mart spent $40.6 million on TV advertising in 1987 compared to $40.5 million spent in 1986. In response to heavy competition from Wal-Mart in select markets, K mart shifted dollars spent on network TV in 1986 to increase spot TV advertising in 1987. K mart is one of only two companies on the list that spends an appreciable amount on network TV advertising.

K mart decreased network TV spending by 44.5 percent to $18.2 million in 1987 from $26.3 million spent in 1986. In contrast, it increased spot advertising by 58 percent to $22.3 million last year from $14.1 million in 1986.

Bentonville, Ark.-based Wal-Mart spent relatively the same on spot advertising, with a budget of $30.1 million in 1987 and $30.2 million in 1986.

Minneapolis-based Target remained the fifth top discounter TV advertiser in 1987, spending 25 percent more to $15.5 million from $12.4 million.

Framingham, Mass.-based Zayre moved up two notches to become the eighth top discounter television advertiser in 1987. The full-line discounter increased TV ad spending by 35 percent to $12.6 million in 1987 from $9.3 million in 1986.

Other full-line discounters that found TV advertising to their liking:

- Canton, Mass.-based Hills increased its TV budget by 12 percent to $11 million, from $9.8 million;
- Fred Meyer, the Portland, Ore.-based superstore operator, spent 36 percent more in 1987. Its television advertising expenditures rose to $6.2 million from $4.6 million in 1986;
- Grand Rapids, Mich.-based Meijer's advertising budget rose 41 percent in 1987, to nearly $4.0 million from the $2.8 million;
- Venture's budget also climbed to a new high, increasing 29 percent to $4.2 million from the $3.3 million the O'Fallon, Mo.-based retailer spent in 1986.

Venture's sister chain in the May Department Stores company, Norwalk, Conn.-based Caldor, reduced ad expenditures in 1987. The company had held the 15th position in 1986 with nearly $6 million in TV ad spending.

Best Products Drops Off List

Another dropout from the list was the Richmond, Va.-based catalog showroom chain, Best Products, which held the 24th spot in 1986.

Toys "R" Us, the specialty toy giant, dropped one notch to the ninth top discounter television advertiser in 1987. While the Rochelle Park, N.J.-based toy giant did not decrease its total TV advertising as much as the 26 percent decline between 1985-1986, it nevertheless decreased its budget by another 9 percent last year to $11.1 million from $12.2 million in 1986.

Unlike 1986 when the specialty toy retailer reduced both spot and network television advertising, it increased network advertising in 1987 while decreasing spot advertising.

TRU increased network spending by 43 percent to $3 million in 1987 from $2.1 million in 1986. In contrast, it decreased spot TV spending by 25 percent to $8.1 million in 1987 from $10.1 million in 1986.

Financial

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1988

Industry Grows Amidst Consolidation

(Continued from page 98)

"I see no end to takeovers," said Daniel Barry, retail analyst for Kidder Peabody. "Most retail stocks are worth more as a leveraged buyout than as a public company. And there is a lot of LBO money," Barry said.

Fred Wintzer, retail analyst for Alex Brown & Co., Baltimore, also foresees further consolidation ahead. "Any chain that is floundering, such as Zayre, and has two down quarters in a row and whose stock is selling close to book value is a possible takeover or LBO candidate," Wintzer said.

Chains will operate fewer discount department stores, as they replace their less viable stores and push into warehouse clubs and hypermarkets, Loeb predicted, but their remaining stores will be larger.

As an indication of the trend toward larger stores, K mart is building stores of 85,000 square feet, an increase from 65,000 square feet or 75,000 square feet, Smith said.

"You have to be bigger to compete."

The 1990s will see "fewer and stronger players," operating larger stores, he predicted.

The whole industry is evolving toward larger stores, said Donald Trott, a retail analyst for Dean Witter. Wal-Mart, for instance, now is building 80,000-square-foot stores, against a previous standard of 57,000 square feet to 60,000 square feet, Trott said.

And Wal-Mart's new thrust is the SuperCenter format of about 120,000 square feet that combines an 80,000-square-foot Wal-Mart with a warehouse food center. Half of its new stores will be the SuperCenter size, Trott predicted.

William N. Smith, vice president and retail analyst for Smith Barney, predicted that 1988 will be a "tough year on pricing," accompanied by "continued pressures to reduce costs."

Warehouse clubs provide that pressure from below, Smith said, and service-oriented department stores from above.

Chains such as Venture "have got their work cut out for them to improve their execution" to counter the competition of Wal-Mart and, increasingly, K mart, Smith said.

K mart continues to improve its systems, Smith said, and will complete the installation of its new POS system in about two years.

"It's hard to see" where Target can reduce costs, Smith said, except that it probably would be through more efficient distribution.

"Everyone is pretty spooked about the economy" since the stock market crash, said Barry. Retailers are keeping tight control on inventories, and Dayton Hudson is cutting capital outlays for its Target and Mervyn's chains, he said.

Kidder Peabody's economist is predicting a mild recession by mid-1989 to last about two quarters, Barry said.

To keep sales from declining as consumers continue to slow their spending over the next two years, retailers will have to slash prices even more, Barry predicted.

Other factors that prompt Barry to take a negative view of retail issues are rising inflation, the increasingly competitive nature of the industry, and poor earnings performance, in comparison to non-retail companies.

The most dramatic trend in discounting is the warehouse format, said Linda Kristiansen, a Dean Witter retail analyst and vice president. "It's the next wave of discounting, and has reached the rollout stage."

Even Ames, the Rocky Hill, Conn.-based regional chain, is venturing into the specialty warehouse field with its Office Shop Warehouse. With 15,000-square-foot stores, Ames could put those units almost anywhere, she said.

Other examples of this wave of new specialty warehouse discounters: the Office Square and Sports Giant specialty warehouse clubs that K mart is developing, Price-Rite's health and beauty aids warehouse, the Sports Authority sporting goods warehouse and a number of other office supply stores such as Staples and Office Depot.

> *'I see a period of acquisition ahead, the trend is survival of the fittest.'*
>
> —Walter Leob,
> senior retail analyst,
> Morgan Stanley

Just as Sam's Wholesale Club acquired the Super Saver warehouse chain last year, the Big Three warehouse clubs, Sam's, Price Club and Costco, can be expected to acquire other second-tier clubs, such as PACE, she said, or troubled clubs, such as the Warehouse Club and American Wholesale.

Discount department stores, as a mature industry, will continue to lose market share, both to warehouse clubs and specialty discounters, predicted Fred Wintzer, retail analyst for Alex Brown & Co., Baltimore.

Specialty retailers that operate "supermarkets," such as Circuit City and Toys "R" Us are hurting full-line discount stores, Wintzer said, by capturing market share.

That's why K mart is getting into sporting goods and office supply specialty warehouses, Wintzer said. "If they didn't take chunks of the market, someone else would. This way they 'keep it in the family.' "

Off-price apparel specialty chains will continue to thrive, Smith predicted, with their formula of offering branded clothing at a better price. "Consumers still find it exciting to discover good brands at a great price."

In contrast to warehouse clubs, hypermarkets remain in the experimental stage, said Kristiansen, Dean Witter. "It's still wait and see."

Nonetheless, Trott, her fellow analyst at Dean Witter, sees a future for hypermarkets in capturing the market niche for individual consumers while warehouse clubs concentrate on business customers.

Hypermarkets will prove themselves within 18 months, Trott said. Chains with superior execution skills will produce viable hypermarkets that will be as "revolutionary as were discount department stores" in their heyday, he predicted.

And Loeb of Morgan Stanley said that hypermarkets, as destination stores, will be among the expected winners in the 1990s.

Smaller chains will find it increas-

(Continued on page 186)

Store Size, Count, Not Governing Factors in SKU Turn Rates

NEW YORK — Inventory stock turned a median 2.9 times last year among 15 of the nation's top discounters, slightly below the 1982 level of 3.0, according to a survey released last month by Coopers & Lybrand, an accounting, tax and management consulting firm based here.

Among the survey respondents, inventory turns ranged from 2.4 to 4.96, a dramatic difference.

"How come someone does it [turn inventory] twice as good as somebody else?" asked Robert M. Zimmerman, partner and chairman of Coopers & Lybrand's retail industry practice.

The data does not provide a clear answer. Company size appears to have little to do with inventory turns.

Mid-size discounters with annual sales of between $500 million and $999 million turned their inventory at a faster rate than either large or small discounters. The turn rate for these discounters averaged 3.52 times a year, compared to 3.46 for companies with annual sales of over $1 billion, and 3.06 times for companies with sales from $200 million to $499 million.

Number of stores also is not a factor. Discounters with more than 200 stores turned merchandise at a rate of 3.38 times a year; they were followed by operators with between 50 and 99 stores, totaling 3.27 turns; and by retailers with 100 to 199 stores, 3.13 turns.

Discount Store Inventory Stock Turn Survey

Sales Volume of Surveyed Stores	Inventory Turns				
	Merch. Groups		Stores		
	Soft Lines	Hard Lines	Comparable	All	Total
Greater Than $1 Billion	3.50	3.02	3.74	3.77	3.46
$500-$999 Million	3.43	3.24	3.38	3.35	3.52
$200-$499 Million	3.43	3.39	3.42	3.42	3.06
All Stores Average	3.47	3.18	3.54	3.55	3.37
All Stores Median	3.20	2.95	3.25	3.34	2.90

Source: Conpers & Lybrand

Within certain categories of merchandise, turn rates fluctuated even more dramatically, from a high of 5.2 for soft goods merchandise by one discounter in the $200 million to $499 million category, to a low of 2.5 turns for a $1 billion-plus company.

"The report shows that smart management exists wherever it exists," said Zimmerman.

The report, entitled, "Discount Store Inventory Stock Turn Survey" sought information on inventory turns from 25 of the nation's top discounters. Fifteen responded. Of those 15 discounters, seven reported annual sales exceeding $1 billion, four had sales in the $500 million to $999 million range, and four posted sales in the $200 million to $499 million category.

Discounters reported turn rates for soft goods and hard goods, by comparable units open one year or more, for all stores, their warehouse operation, and total company turns.

Retailers were promised anonymity for their responses.

Although the study was last done five years ago, Zimmerman said the survey will become an annual report.

Zimmerman found the wide spread in inventory turns among discounters quite surprising. He reasoned that since retailers are selling the same merchandise at the same gross margin and under relatively the same conditions, the difference boils down to "merchandise productivity," a product of controlling costs and effective sku management, key variables in the distribution system.

"Retailers need to look at this variable at POS, scanning, getting the merchandise through the pipeline faster with higher service with lower inventory costs," he said.

Zimmerman predicts that in the next two to three years, a few discounters will push their inventory turn rates to 6 or 7, and discounters with inventory turns under 3 will "drop out."

The survey has already shown that discounters can achieve 5 turns a year. Two of them have already done it in two different categories: soft lines and comp store turns.

The warehouse club concept of higher turns and lower margins will filter into discount stores, he said.

Warehouse clubs usually report 15 turns a year with gross margins at about 10 percent.

"Discounters are going to

(Continued on page 186)

Despite Consolidation, Discount Industry Continues to Expand

(Continued from page 185)

ingly difficult to compete against the Big Three—K mart, Wal-Mart and Target, Trott predicted.

Wal-Mart stands "head and shoulders" above the pack in execution and value delivered, he said. "K mart has improved in the past two years," he added, and "Target is no slouch, either."

The Big Three continue to open new stores, said Smith of Smith Barney, which will offset the weaker chains as they close stores or merge into stronger chains. Wal-Mart will add about 100 stores this year, Smith said, and K mart will open at least 50 in 1988, compared to about 25 last year, he said. And, Target is expanding on top of its 50 Gemco conversions last year.

Wal-Mart will continue to push its operational boundaries outward, Trott predicted, but will require 15 to 20 years more to become a national chain.

In its expansion drive, Wal-Mart is putting enormous pressures on regional chains, including Family Dollar, he said. Wal-Mart has attacked Family Dollar's small-town marketing approach by offering superior merchandise at cheaper prices, Trott said.

Zayre is among the regional chains that face enormous challenges in the years ahead, Trott said.

"It will take a minimum of three years—if ever—for the Zayre division to turn around," Trott predicted.

Systems are "archaic and distribution centers lack appropriate capacity," Trott said. Zayre faces a "critical stage" in its life, Trott said.

Jamesway is a regional chain that bought some time by making improvements over the past two years, Trott said. Yet, the Secaucus, N.J., chain remains "eight to 10 years behind the industry leaders" in developing retail automation systems that promote greater efficiency, he said.

The market is treating regional discounters as holding below-average potential because all are experiencing gross margin pressures, said Kenneth Gassman, who specializes in regional chains as an analyst for Wheat First Securities, Richmond, Va. Their stocks are "dead in the water," Gassman remarked.

In addition to pressures from the national chains and warehouse clubs, the coming of the hypermarket is putting new pressure on regionals, he said. S.E. Nichols, New York, and Rose's Stores, Henderson, N.C., both had down years in 1987 and Heck's, Nitro, W.Va., is in Chapter 11 bankruptcy.

Jamesway, Ames and Rose's all are vying to be the dominant chain in their region. Jamesway is struggling to maintain market share and growth. And Rose's is battered on all sides by the majors. "Despite good management, Rose's just can't seem to generate momentum to get ahead," said Gassman.

The central issue for regional chains is to "identify their niche in the marketplace and create an image among consumers about what that niche is," he said.

Wal-Mart has made its niche clear: low prices, Gassman said, but the niche for many regional chains is fuzzy. "They can't be everything to everybody."

If the economy turns down, regional chains would be under more pressure than ever because the nationals operate from deeper pockets, Gassman remarked.

Regional discounters might have to take the specialty retailing route, such as Montgomery Ward did with its "focus" stores, Gassman suggested.

Despite the generally dim view that Wall Street takes toward retailing issues, analysts still toss out a few names for consideration.

For the investor willing to assume "above average risk," Gassman suggests two niche discounters, Service Merchandise and Best Products, as turnaround candidates.

Service Merchandise, Nashville, Tenn., is repositioning its financial structure, although not its merchandise, Gassman said. Best Products, Richmond, is repositioning its product line to such an extent that Gassman now terms it a "jewelry and giftware retailer," rather than a catalog showroom chain.

In seeking its niche, Best has slashed sku's to 11,000 from 16,000, Gassman said, reduced its number of catalogs to 2 million from 6 million and put more goods on shelves to cut back room labor costs.

Barry, Kidder Peabody, favors another turnaround situation, Consolidated Stores, a closeout chain, and Toys "R" Us for its predictable growth.

Morgan Stanley's Leob recommends Wal-Mart, virtually every major analyst's favorite retail issue, and Toys "R" Us.

Along with destination stores, such as hypermarkets, chains such as Toys "R" Us that create markets will also be winners in the 1990s, he predicted.

The "me, too" stores won't be standing in the winner's circle, he said.

Store Size, Count, Not Governing Factors in Turns

(Continued from page 185)

have to [raise turn rates] by being more efficient, buying what customers want, and shortening the pipelines from manufacturer to stores," Zimmerman observed, adding, "You have to be clever."

Apparently some discounters are quite clever.

One discounter in the $200 million to $499 million category, with fewer than 100 stores, posted a turn rate of 5.2 in soft lines merchandise, higher than any other merchant in the study. This same company recorded 3.92 turns in hard lines, second only to one mid-size discounter, also with fewer than 100 stores, that posted 4.62 turns in hard lines.

According to the survey, soft goods merchandise turned a median 3.2 times for all the stores and 2.95 for hard goods. Comp store turns were a median 3.25, and all stores turned their merchandise a median 3.34 times a year.

Large companies averaged 3.5 turns in soft goods and 3.02 in hard goods, 3.74 in comparable stores, and 3.77 for all stores. The company average for discounters in the $1 billion-plus category was 3.46.

Mid-size companies reported soft goods merchandise turned an average of 3.43 times, and hard goods, 3.24 times a year. Comp store turns were an average 3.38, and all stores, 3.35. Total company turns for companies with sales of $500 million to $999 million was 3.52.

Small firms reported soft goods turns at 3.43 and hard goods at 3.39. Both comp store turns and all stores turned an average of 3.42 times a year. The total company turn rate in this category was 3.06.

Several companies did not fully report their turn rates by category, only by total company. The discounter ranked No. 1 for turns—with sales exceeding $1 billion—reported a rate of 4.96.

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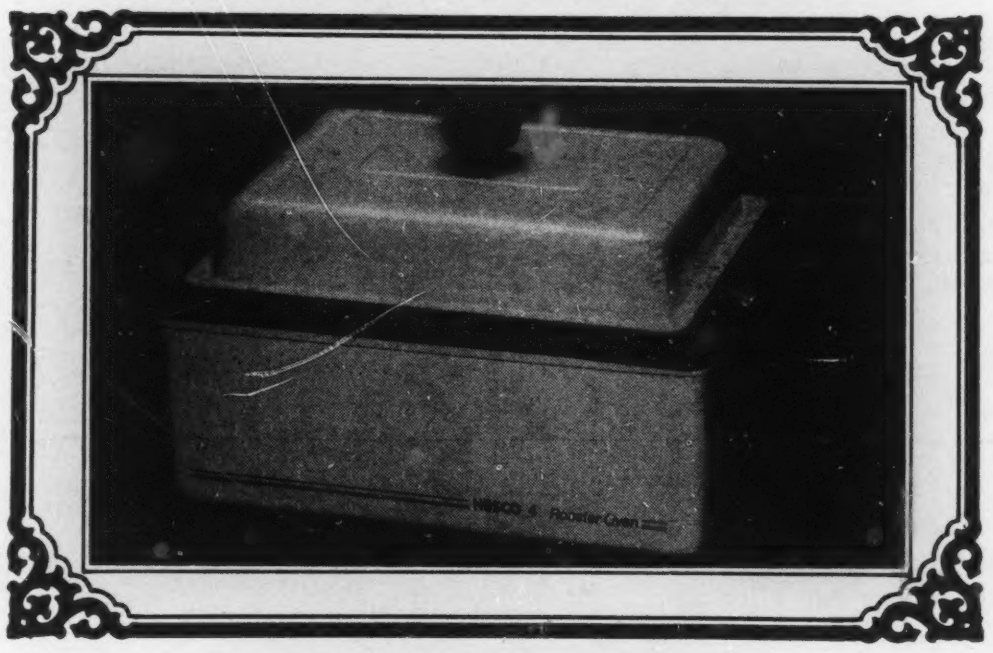

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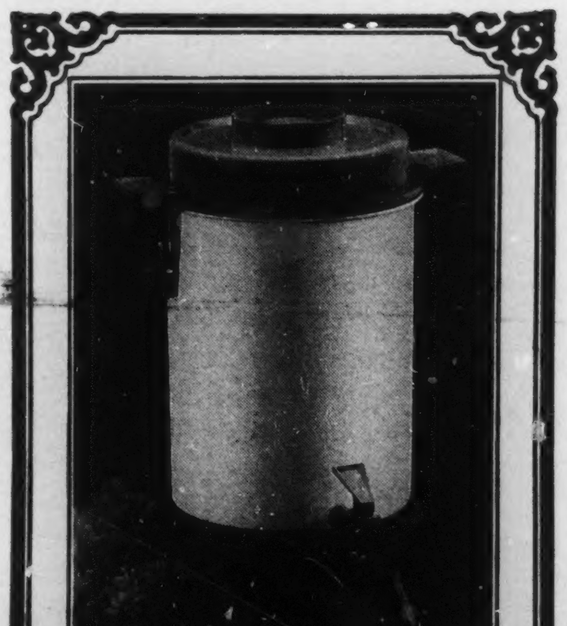

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Price Verdict Threatens Future of Discounting

(Continued from page 5)

price maintenance may no longer be treated as per se or automatically illegal—a position argued by administration officials at both the Justice Department and the Federal Trade Commission.

Instead, the court effectively changed the definition of RPM to exclude conspiracies which stop short of establishing specific price levels.

Under the standard laid down in *BEC vs. Sharp*, it is automatically illegal for a vendor to strike an agreement with one or more retailers to prohibit the sale of a product below a "suggested" list price. But it is not automatically illegal to conspire to terminate retailers whose low prices offend competing retailers.

That curious ruling stemmed from a relatively straightforward, 15-year-old dispute between two authorized distributors of Sharp electronic calculators in Houston, Texas. One dealer, BEC, sold the vendor's products at below "list" prices. The other, Hartwell, repeatedly complained to Sharp about BEC's discounting.

In June of 1973 Hartwell threatened to stop selling Sharp's products altogether unless transactions with BEC were terminated within 30 days. The vendor responded to that ultimatum by cutting off sales to BEC in July.

The discounter filed suit in federal court and was awarded $1.8 million in treble damages due to the conspiracy.

The appeals court for the 5th Federal Circuit reversed that verdict, however, ruling that in order for the conspiracy between Sharp and Hartwell to be per se illegal, Hartwell "must expressly or impliedly agree to set its prices at some level, though not at a specific one." The agreement is not automatically unlawful, the court added, unless the retail conspirator "cannot retain complete freedom to set whatever price it chooses."

In upholding that decision, the U.S. Supreme Court held that the termination of a discounter under the conditions present in the *BEC vs. Sharp* case is not "conduct that is manifestly anti-competitive."

"There has been no showing here that an agreement between a manufacturer and a dealer to terminate a 'price cutter,' without further agreement on the price or price levels to be charged by the remaining dealer, almost always tends to restrict competition and reduce output," Justice Scalia wrote on behalf of the court's majority.

A ruling against the manufacturer in this case, he reasoned, would make it too easy for discounters to win groundless treble damage RPM suits against innocent suppliers.

"Any agreement between a manufacturer and a dealer to terminate another dealer who happens to have charged lower prices can be alleged to have been directed against the terminated dealer's 'price cutting,' " Scalia maintained. "In the vast majority of cases, it will be extremely difficult for the manufacturer to convince a jury that its motivation was to ensure adequate services, since price cutting and some measure of service cutting usually go hand in hand."

Even manufacturer trade restraints "that do not result in dealer termination, such as the initial granting of an exclusive territory or the requirement that certain services be provided, can be attacked as designed to allow existing dealers to charge higher prices," Scalia lectured. "Manufacturers would be likely to forego legitimate and competitively useful conduct rather than risk treble damages and perhaps even criminal penalties."

Ironically, Scalia's opinion was peppered with references to "Chicago School" jurist Robert Bork—one of President Reagan's unsuccessful 1987 Supreme Court nominees, and a leading advocate of allowing vendors to dictate the prices paid by consumers.

The decision against BEC drew a strongly worded dissent from Justices John Paul Stevens and Byron White, who described the agreement to terminate sales to the discounter as a "naked restraint" of trade.

"When a manufacturer responds to coercion from a dealer, instead of making an independent decision to enforce a predetermined distribution policy, the anti-competitive character of the response is evident," the dissenters maintained.

Calling the agreement that led to the termination of BEC "inherently suspect," they warned that the court majority's opinion will "only breed uncertainty in the law and more confusion for the businessman."

"The sole purpose of the agreement" to terminate the discounter in this case "was to eliminate price competition," and therefore the conspiracy should be considered per se illegal, they maintained.

The Supreme Court's *Sharp* ruling underscores the importance to the discount industry of securing federal legislation governing resale price maintenance conspiracies. The House has already passed a bill giving statutory weight to the per se ban on RPM, and a similar measure sponsored by Sen. Howard Metzenbaum, D-Ohio, is pending in the upper chamber.

Also, that measure would clarify the standards of evidence in RPM cases to make it easier to prove a conspiracy.

The Price Club Petitions Senate

SAN DIEGO — The Price Club has included a preprinted petition in the April issue of the *Price Club Journal* supporting a proposed Senate bill to guarantee a court hearing in price fixing cases.

In a note on the petition, Price Club chairman Sol Price explained that the measures "provide that terminating a dealer in response to a rival dealer's complaint is sufficient to infer illegal resale price maintenance. They are designed to make it a little tougher for manufacturers to evade the Sherman Antitrust Law by keeping merchandise out of the hands of people like us [warehouse clubs]."

The petition itself states: "I support 'The Retail Competition Enforcement Act' (S 430) which would guarantee fair pricing by allowing a dealer whose supply is cut off by a manufacturer in response to a price complaint from another dealer to have a fair hearing in court. I believe this bill protects consumers by guaranteeing full-price competition at the lowest possible prices."

The *Journal*, which has a controlled circulation of 800,000, goes to Price Club business members. Individual (group) members can subscribe for $5 a year.

Discounters Divided

(Continued from page 5)

tive role in the antitrust controversy, lobbying for the Senate bill sponsored by Howard Metzenbaum, D-Ohio, that would make it easier to get a case of suspected price fixing before a jury.

"The days of Fair Trade are coming again," said Bob Stevenson, K mart's vice president for public affairs.

The decision's "long-term implications for the industry are bad," he said.

The Reagan administration isn't enforcing price-fixing law, anyway, he said, and "this decision makes it more difficult to enforce the law."

"It should be up to the distributor to decide what the ultimate price to the consumer should be."

K mart is working to get the Metzenbaum bill passed, Stevenson said.

Differing versions of the bill have passed the Senate and the House, and a final compromise bill undoubtedly will be amended to counteract the Supreme Court decision, predicted Malcolm Hoffman, a New York antitrust lawyer.

An opposite view of the decision comes from Sol Price, chairman of the Price Club.

"Ultimately, any industry that gets protected gets weakened," said the warehouse club founder. "I see no real threat in the long run from the the decision."

Since 1958, "I've gone through all the trade wars," Price said, "and I'll survive this one, too."

Over the years, the position of conventional retailers has weakened considerably. With the competition, "it would be difficult to maintain prices in today's market," he said.

Bradlees said in a statement that the decision might affect smaller discounters. But "it will have no effect on larger discounters, such as Bradlees, because we are promoting and servicing major brands, as are most of the higher-priced competition."

As justification for curbing supplies to discounters, some manufacturers argue that full-price retailers help the brand by providing more service.

A Best Products spokeswoman, Brenda Morgan, said the catalog showroom operator "doesn't expect any adverse ramifications" from the decision.

Best Products accounts for a significant part of the annual revenues of many vendors, so "we don't expect any cut offs," Morgan said.

Any move to cut off discounters will boomerang on vendors, predicted Gee Bee chairman, Alvin Glosser.

"Manufacturers are geared up to produce X number of units," Glosser said. "If they start putting on restrictions, goods will back up in their factories," he said.

Vendors who restrict goods will experience marginal growth in sales and profits, he said. "The discount industry already has shown it can move tonnage.

"I don't think it [the *Sharp* decision] will hurt in the long term," Glosser said.

General Electric had its Fair Trade price 30 years ago, Glosser said. "Everybody had his way to get around GE's restrictions."

Sharp "won the battle, but it lost the war," Glosser said.

"The decision is a lawyer's dream," said Jack Luskin, chairman of the Luskin's consumer electronic chain. "It's Son of Fair Trade.

"We're taking it one day at a time," Luskin said. "I've never been threatened with a cut-off," he said, "and I don't foresee any harmful effects." But, "you never know," he added.

The decision "leaves manufacturers open to intimidation and coercion by big conglomerates which can cut down the amount of brands carried by other retailers," warned Monroe Milstein, chairman of Burlington Coat Factory, in a published report.

"Brand names [are] not just in clothing. It's all across the board," Milstein said. "The biggest conglomerates will dominate the market and force the others out.

"If they take away the brand names, they literally take away our customers."

K mart Recruits K marters of the Future

(Continued from page 5)

tics team, he noted, needed more than money to support its efforts.

The immediate goal of the K mart Gym Kids Club program, which will be handled internally at K mart, is to instill good health, fitness and nutrition habits in children and to provide positive publicity for the U.S. Gymnastics Federation.

The long-term goal of this program, and others that will surely follow, "is to get more out of our advertising and public relations so the customer becomes more comfortable about shopping K mart," explained Wellman.

Both the sponsorship of the gymnastics team and the kick-off of Gym Kids Club was announced at a press conference at K mart's Troy, Mich., headquarters on May 10.

The size of K mart's contribution to the U.S. Gymnastics Federation was not disclosed, nor was the estimated cost to the retailer of operating the Gym Kids Club.

K mart chose to sponsor gymnastics because the sport both appeals to and is available to young children, who are part of K mart's target audience, explained Barbara Palazzolo, director of marketing and product publicity.

Sponsorship of the gymnastics team also represents an expansion of K mart's corporate giving program.

The Gym Kids Club was introduced to K mart shoppers on Sunday, May 15, via in-store signage. In addition to registering children in stores, K mart will send Gym Kids Club information to a book club list from Waldenbooks—a K mart subsidiary—containing names of about 2 million children, and to the 50,000 members of the Gymnastics Federation, said Wellman.

This fall, select merchandise such as gym bags, backpacks and some children's apparel items will feature Gym Kids Club hang tags.

All children in the target age group are eligible for a free membership, entitling them to receive the four-page, four-color newsletter six times a year, a K mart Gym Kids Club logo patch, a membership card and a U.S. Olympic Gymnastics team poster.

The newsletter will also be available in K mart stores.

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THE NEWSPAPER OF DISCOUNT RETAILING

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IMRA session on 'Challenges Facing Retailers' featured executives representing chains totaling more than $70 billion in retail sales (from left): Bruce Allbright, president of Dayton Hudson; Michael Bozic, chairman of Sears Merchandise Group; David Glass, president of Wal-Mart; Stephen Goldberger, chairman of Hills; and Peter Hayes, new president of Child World. (DSN photo)

IMRA '88: Politics, Trends, Competition

By Donald Longo

NASHVILLE, Tenn. — At an annual convention shaded by numerous political issues and overtones, the nation's leading discount retailers and their suppliers met here late last month to renew relationships, discuss trends and uncover new and better ways of conducting their businesses.

Despite the absence of some major chains at this year's International Mass Retail Association event, most of the industry's big names were well represented, including Wal-Mart, Target, Ames, Hills, Bradlees, Jamesway and many others. In public sessions and on the exhibit room floor, these leaders of the mass merchandising industry:

- Noted that overall business has been fairly good, but bemoaned the lack of direction in apparel that has resulted in very sluggish soft lines sales;
- Expressed their concern over and disagreement with the recent Supreme Court decision that makes it easier for a full-price retailer to exert pressure on suppliers to cut off sales to discount retailers who sell the same product at substantially lower prices;
- Participated in a computerized opinion survey that revealed half (49 percent) of the show's attendees favored

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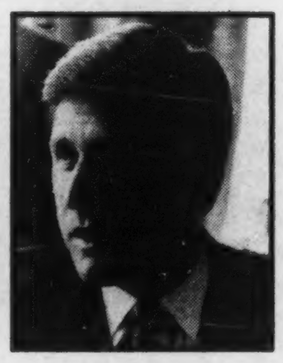
Key Gold Circle Execs Resign As Management Pursues LBO

By Mary Ellen Kelly

Glass

Hayes



Fishman

WORTHINGTON, Ohio — A number of key Gold Circle employees have left the chain despite efforts by the discounter's management to save the 21-year-old chain through a proposed leveraged buyout.

At presstime, an LBO, led by company president Robert Glass and reportedly other unidentified members of management, was still being pursued following the resignation last month of chairman Peter Hayes, senior vice president, general merchandise manager Steve Fishman, and a number of other merchandisers.

Glass told *DSN* that an announcement on the LBO could be made early this month.

The proposed LBO was triggered by the acquisition of Gold Circle's parent, Federated Department Stores, by Toronto-based Campeau Corp. Campeau said it plans to jettison the 76-unit Gold Circle discount chain to help pay off some of the debt incurred in the acquisition. Other Federated specialty divisions are also for sale.

Investment banking firm First Boston is leading the search for financial backers for the Gold Circle management team. If the LBO falls through, likely buyers of groups of Gold Circle stores include Target, Hills and Wal-

(Continued on page 53)

Zayre Lays Off 60; Eyes $10M Savings

FRAMINGHAM, Mass. — Zayre Corp. has laid off 60 regional and headquarters employees from its money-losing discount store arm, and eliminated 190 unfilled positions. Store closings are also expected, sources told *DSN*.

Zayre hopes to save $10 million a year.

The layoffs included three vice presidents and "a few buyers," said Jerry Donini, senior vp, human resources.

K mart to Pair Square, Fare in Charlotte, N.C.

By Richard C. Halverson

CHARLOTTE, N.C.— On a rolling 34-acre site, K mart is planning to give new meaning to the one-stop-shopping concept by offering consumers the opportunity to buy their clothes, food, general merchandise—and home improvement materials at the same complex.

K mart is going to pair its second American Fare hypermarket with a new Builders Square home improvement center here, *DSN* has learned.

K mart often has paired a Builders Square with a discount store, and Wal-Mart has built several Sam's Wholesale Clubs next to its Discount City

(Continued on page 46)

IKEA Suit Forces STOR to Shelve Catalog

Home Furnishings Retailer Claims Copyright Infringement

By Pamela Krein

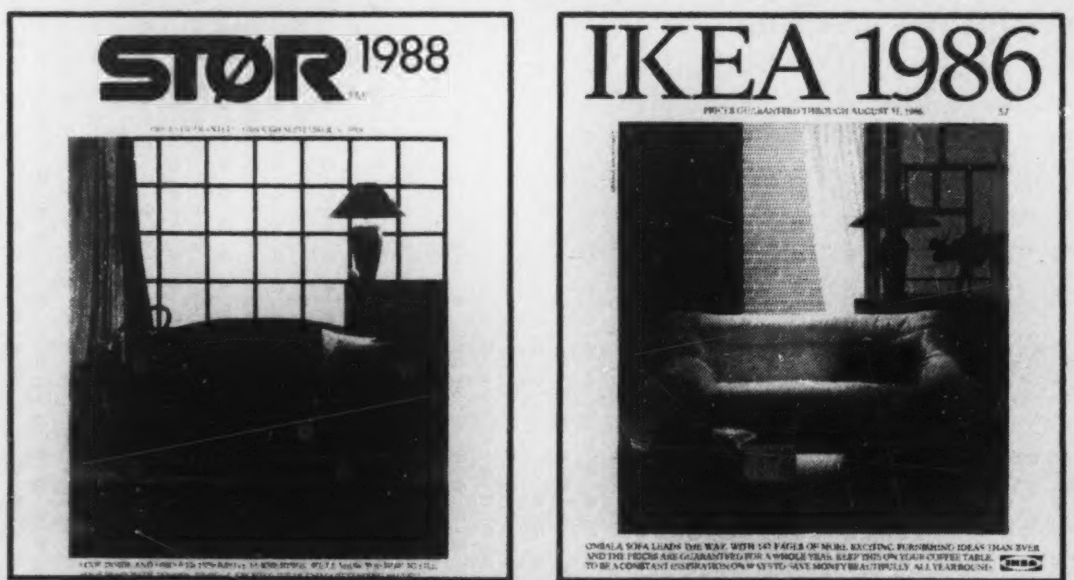
LOS ANGELES — Pressured by a IKEA copyright infringement lawsuit, STOR, a competing home furnishings retailer, has halted display and distribution of its 1988 "copy cat" catalog.

The decision by STOR ends the first dispute in the lawsuit filed by Swedish-based IKEA. The lawsuit charges that STOR "copied in virtually every respect material from IKEA stores."

IKEA—with stores in 19 countries including two sites in the U.S.—contends that STOR replicated IKEA's furniture, furniture names, signs, testing machines, price tags, department names, color schemes, checkout areas, shopping carts, general store layout and design, and catalogs, and that this replication constitutes unfair competition and copyright infringement.

In the lawsuit, IKEA is ask-

(Continued on page 49)



In its lawsuit, IKEA is claiming that STOR's 1988 catalog, left, is an infringement on the copyright of IKEA's 1986 catalog, right.

L.A., Philadelphia Added As Main Street Test Areas

By Arthur Markowitz

LOS ANGELES — GTE will expand the test marketing of Main Street, its interactive cable TV shopping service—now being tested in Boston—to Philadelpia and the Los Angeles suburb of Cerritos later this year.

MAIN STREET

In Cerritos, GTE will build and maintain a cable TV network infrastructure that will allow the largest and most advanced test of voice, video and data services, including home shopping, to consumers and businesses. The network will use traditional coaxial cables, with state-of-the-art fiber optics be to added later.

The actual 36 channels of cable TV programming in Cerritos will be provided by Apollo CableVision, with GTE and other vendors offering such other services as home shopping and banking, entertainment information, and

(Continued on page 53)

Men's Wear Gets New Look at Ames

Federated's HomeWorks Experiment Flops

Fragrances Freshen Up

CE Chain Census

MARKETWATCH

Harts to Open Two Hypermarket Stores

NASHVILLE, Tenn. — David Godfrey, vice president and general manager of Columbus, Ohio-based Hart Stores, said at the IMRA convention here that Hart and its parent, supermarket operator Big Bear, will open two hypermarket-type stores in Ohio markets this month. Debuting on June 15 will be a 140,000-square-foot Big Bear Plus in Wintersville, Ohio, near Steubenville. A 100,000-square-foot Big Bear Plus will open the same day in Bridgeport, Ohio, across the border from Wheeling, W.Va. Both stores will devote 60 percent of their product mix to general merchandise and 40 percent to food. They will have a central checkout area for food and non-food merchandise and will resemble a Wal-Mart SuperCenter in layout and look, said Godfrey. Another Big Bear Plus is expected to open this fall in Wapakoneta, Ohio, in a 75,000-square-foot former Cook United building.

QVC Reports 1st Qtr. 241.3% Sales Rise

WEST CHESTER, Pa. — QVC's sales jumped 241.3 percent to $38.1 million from $11.2 million in the quarter ended April 30, putting the teleshopper "on target toward the upper end of our projected $170 million to $200 million sales goal for the year," said chairman Joseph M. Segel. The big sales jump produced a $1 million net profit, compared to a $6.3 million loss in the same period last year. The turnaround means that "we are now beginning to reap the benefits of the cost efficiencies of our satellite-cable TV transmission system," he said.

Pic 'N' Save Operating Income Falls 8%

CARSON, Calif. — Pic 'N' Save, a 126-store closeout chain, reported an 8 percent decline in operating income on an 18.5 percent sales gain during its first quarter of 1988. Operating income dipped to $11.1 million during the quarter ended April 3 from $12.1 million in the year earlier period. Sales, on the other hand, rose to $73.9 million from $62.5 million. Thanks to lower income tax rates, net after-tax earnings for its first quarter remained stable at $7.05 million, the company reported. Pic 'N' operates primarily in the Southwest but entered a new market, Louisiana, by opening one store last month in Shreveport. To support its eastward expansion, the company plans to build a new distribution center in New Orleans.

Caldor, Venture Record Flat 1st Qtr. Sales

ST. LOUIS — Sales for Caldor and Venture came in essentially flat during their first quarter and actually fell 3.3 percent on a same store basis. On a consolidated basis, their sales rose just 0.4 percent in the quarter ended April 30 to $546 million from $544 million in the year-ago period, reported their parent, May Department Stores. On its quarterly statements, May declines to separate Caldor and Venture sales or report operating income for its discount store division. Including department and specialty stores, combined sales for May totaled $2.26 billion for the quarter, a 2.6 percent gain from $2.2 billion a year ago. Net earnings for May's first quarter dipped 3 percent to $62 million from $64 million last year.

Moody's Downgrades S.E. Nichols Debt

NEW YORK — Moody's Investors Service has downgraded the debt rating of S.E. Nichols, New York, citing several years of declining profits that culminated in a loss for 1987. Profits have been falling primarily because of virtually flat sales, lower gross profit margins and increased operating costs, Moody's said. Moreover, intense competition will result in marginal future profits, the debt rating service said. Since January, Nichols has been attempting to arrange bank financing after its previous banks canceled their credit agreements.

Wholesale Club Takes Over Ex-Costco Unit

INDIANAPOLIS — The Wholesale Club this fall plans to open its 18th membership warehouse in Costco's former St. Louis Park, Minn., store. Costco closed its two membership warehouses in the Minneapolis-St. Paul market and one in Milwaukee last month. The Wholesale Club already has five stores in the Twin Cities. The opening of its newest unit there will follow the chain's launching of a club in North Canton, Ohio, in early August.

Dart Group to Buy Half of Food Discounter

LANDOVER, Md. — After failing in hostile raids on major supermarket operators, Safeway, Supermarkets General and most recently the Stop & Shop Cos., the Dart Group has agreed to buy half of an 18-store food discount chain doing business as Shoppers Food Warehouses. Terms of the deal with Jumbo Food Stores Inc., were undisclosed. Herbert Haft and his son, Robert, control the Dart Group, which presently operates two discount chains, Trak Auto and Crown Books.

National Stationery Show Adds Home Office Products to Its Mix

NEW YORK — Home office products were added as a new merchandise category at last month's National Stationery Show.

The annual exhibition, held here at the city's Jacob Javits Convention Center and at Pier 92 from May 15 to 18, attracted 27,000 buyers who viewed roughly 2,200 exhibitor booths in 306,000 square square of total exhibition space, according to George Little Management, managers of the event.

The new, home office exhibit, which attracted more than 50 new exhibitors to the 42-year-old show, was added this year in response to the category's growing influence in the retail arena and to help social stationery retailers access the market, reported the show's organizers.

And to further acquaint stationery retailers with the home office category, the show offered a seminar titled, "Extensions: Moving Forward With Home Office Products."

Among the office products on display at the annual show were writing instruments, appointment books, calendars, desk organizers and file cabinets. The exhibitors included such vendors as Keith Clark, Metro Files, a subsidiary of Rolodex, Pentel and Crazy Glue.

The office products displays were held in overflow space containing about 225 new exhibitors at Pier 92. Next year, the entire show will be held in the Jacob Javits Convention Center, according to George Little Management.

The National Stationery Show is an international event for the social stationery industry which includes categories such as greeting cards, stationery, paper party products and gift items.

Color and design highlighted the exhibition floor in virtually every product category.

In home office, for example, exhibitors featured colorful organizer products such as file folders, file cabinets, calendars and business stationery in today's most popular colors and designs. Even items such as paper clips and writing tablets were available to buyers in the ever-popular shades of pink, blue and gray.

And in greeting cards, as in paper party products and gifts, the cornerstones of this industry, color and sophisticated designs abounded.

In fact, one of the trends in greeting cards appeared to be high-end products with high gloss. Many greeting cards were also available in warm and bright traditional images, photography, Impressionistic art and laser printing.

In paper partyware, pastels are still most popular, particularly seafoam green, peach, turquoise and pink. Lush English florals and such licensed characters as Betty Boop, Mickey Mouse and Suzy's Zoo remain very popular.

Buyers Nominate Vendors For 11th SPARC Awards

NEW YORK — Fifty-four finalists in 18 merchandise categories have been nominated for the 11th annual SPARC (Supplier Performance Awards by Retail Category) awards, announced Gene O'Donnell, SPARC committee chairman and senior vice president, general merchandise manager of Hills Department Stores.

SPARC DSN AWARD

The SPARC program, sponsored by *Discount Store News*, recognizes hard lines and soft lines manufacturer's contributions to the discount retailing industry.

The suppliers nominated on the first ballot were chosen by discount store buyers selected from *Discount Store News'* listing of the Top 100 chains.

(Continued on page 8)

deGraffenreid Named Group Publisher of DSN

NEW YORK — Jim deGraffenreid, a 10-year veteran of *DSN*'s parent firm Lebhar-Friedman, has been appointed senior vice president and group publisher, and is now group publisher of *Discount Store News*.

DeGraffenreid joined Lebhar-Friedman in 1977 as a salesman for *DSN* and *National Home Center News*, and two years later became *DSN*'s national sales manager. In 1981 he was appointed Chicago advertising manager for all Lebhar-Friedman publications and later that year was elected a vice president of the corporation. Following several other positions within the company, he was made group publisher in 1987. In addition to *DSN*, deGraffenreid is group publisher for *Chain Store Age Executive* and *National Home Center News*.

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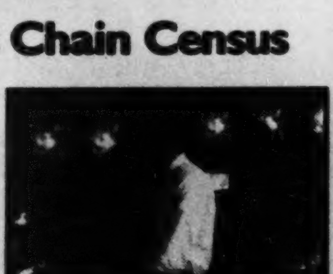


Apparel

Men's Apparel at Ames Gets New Look

By Kenneth M. Chanko

NEW YORK—Looking to further fine tune its men's wear department, Ames Department Stores has redefined its strategy, resulting in a more flexible, fashion-responsive category.

Chuck Rilling, vice president, general merchandise manager of men's wear, told *DSN* that Ames is in the process of "narrowing assortments and getting behind items" much more so than the discounter has in the past.

In addition, to remain more flexible, Rilling said the Rocky Hill, Conn.-based chain is pursuing "a metro-market strategy," which encompasses totally separate planning for Pittsburgh; Baltimore; Rochester and Syracuse, New York; and other metro-area stores, breaking them out from more rural units.

"This allows us to be much more responsive to fashion than before," Rilling explained. He added, "In general, we're paying more attention to demographics."

Philip Marshall, divisional merchandise manager of men's, said that while stock keeping units have been reduced, he doesn't think the customer perceives it. "What they do see is a more concentrated fashion presentation that really stands out. Less sku's allow us to highlight a certain look or item in a more dynamic way."

Indicative of this new mindset at Ames is its "Summer Shop" that's being rolled out in selected units for the season. It's a shop within the men's department that gathers together novelty T-shirts and tank tops, shorts, swimwear and other summer items.

"It's more of a 'concept' merchandising approach for us," said Rilling. "We now have a much more meaningful presentation." Marshall added, "We're no longer just sending the merchandise to the store and then forgetting about it."

Marshall said that this new strategy demands more from buyers and especially store managers, but he said that so far "buyers, store managers and the floor people have been extremely cooperative." Buyers are getting together more to coordinate color schemes, Marshall added.

Ames is rolling out its 'Summer Shop' in selected units for the season.

Increased flexibility also extends to buyers' outlays. Marshall said that, for example, novelty T-shirts and tank tops, which include "anything printed," has been so strong over the last several weeks that the buyer of that category "got his own separate open-to-buy."

Marshall said that sales of novelty T-shirts so far for spring have "exceeded our goals. The business has grown over 100 percent." The novelty business includes licensed products, with California Raisins and Playboy being two of the more popular items. Rilling added that Ames is also getting a lot of mileage out of high school-name T-shirts.

In bottoms for spring/summer, abstract and tropical print jams "are not going to be what they were," said Marshall. Pieced looks and washed fabrications, in twills and canvas, will be strong instead. Marshall added that the chain is testing the fashion-forward stretch biker short as well.

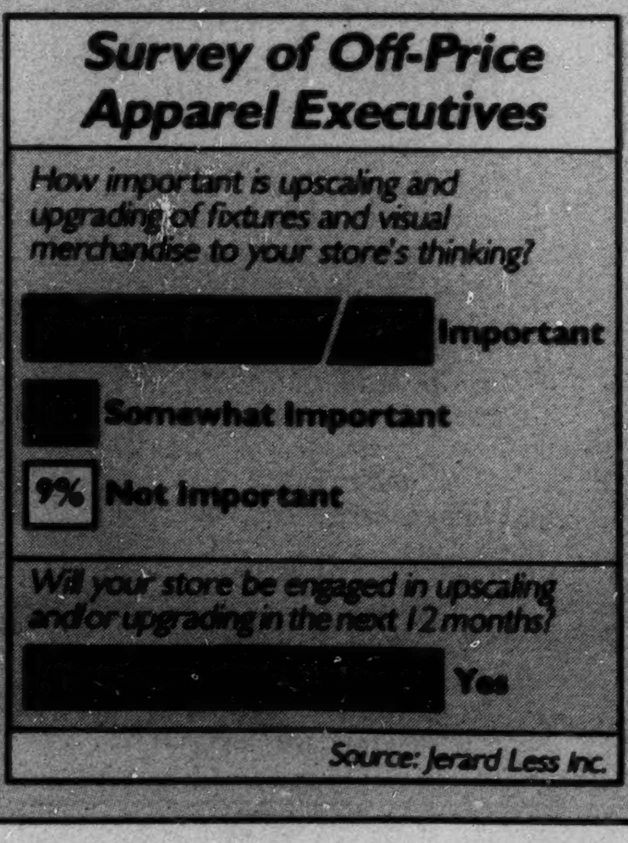
For fall, the chain will be getting behind turtlenecks and river driver-style shirts the way it has for novelty T-shirts and tanks tops for spring.

To further fine tune its men's wear department, Ames has redefined its strategy, resulting in a more flexible, fashion-responsive category.

Chuck Rilling, vp, gmm, men's wear, said that Ames is in the process of 'narrowing assortments and getting behind items' much more so than in the past.

MARKETWATCH

NEW YORK—As many as 82 percent of off-pricers surveyed said that upscaling and upgrading of fixtures and in-store visual merchandise was "very important," according to an exclusive study conducted by Jerard Less Inc. for *DSN* (see accompanying chart). The survey, which involved telephone interviews with eight of the nation's top off-price chains, also found that the majority will also be engaged in upscaling/upgrading over the next 12 months.



Source: Jerard Less Inc.

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LOS ANGELES — MAGIC (Men's Apparel Guild in California) is planning to hold a preline event in Las Vegas, Nev., prior to its first show there, which would put it in direct conflict with the first California International Menswear Market (CIMM) in Los Angeles. The MAGIC preline, which would run Sept. 25-28, 1989, is scheduled to be held at a Las Vegas hotel near the convention center. CIMM will be held at the Los Angeles Sports Arena. The question of whether MAGIC exhibitors would want a preline show was included in MAGIC contracts that went out several months ago to show participants for the Las Vegas edition. A MAGIC spokesman said the contracts should be back before the end of the month, and soon after that a definite decision will be made on the preline. A CIMM spokesman said the decision by MAGIC to go with such an event "reinforces that a preline show is a valid concept." The spokesman said that CIMM is 65 percent sold for its September 1989 show, and he added that a new "Stay in L.A." direct mail and ad campaign will be launched soon.

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CHICAGO — William Grueser has been named vice president, general merchandise manager of men's apparel and shoes at Montgomery Ward & Co. Grueser, who reports to Malvin Pavik, president of the Apparel Group, succeeds Warren Flick, who left the company. Grueser, who most recently was divisional merchandise manager of career apparel, among other categories, will be responsible for the sales and return on merchandise investment for all men's apparel, shoe lines and luggage.

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WASHINGTON D.C. — Wholesale prices for women's apparel in April rose at a more moderate pace than the overall Producer Price Index released by the Labor Department. Wholesale prices on women's apparel were up 0.2 percent from March, and 1.5 percent compared to April 1987. Seasonally adjusted, prices increased 0.1 percent from March. The PPI for all finished products in April rose 0.7 percent from the March index and 1.7 percent from a year ago. Prices for apparel products alone edged up 0.2 percent in April from March.

DSN INSIGHTS

CE CHAIN CENSUS

Richmond, Va.-based Circuit City continued to strengthen its position as the industry leader by gaining market share from competitors. It plans to open 20 stores in '88.

CE Chains Slow Expansion to Retrench

By Josephine Fiamingo
Nationwide DSN Report

After a year of both external obstacles and internal problems that choked their businesses, most consumer electronics specialty chains are planning much slower expansion this year.

Instead of new stores and markets, attention will be paid to fine tuning their businesses by controlling costs and improving customer service.

The external obstacles ranged from a slowdown in the release of new products by manufacturers and highly competitive conditions in weak geographic markets to a less confident consumer and rising expenses.

Self-inflicted problems that affected CE chains included: overly rapid expansion by retailers anxious to use capital from public offerings; lack of cost controls; and poor management.

Most chain executives agreed that their businesses must be adjusted this year to survive in a slower growth environment. The CE industry is expected to be sluggish again in '88 with moderate retail sales growth of 2 percent.

Testament to retailers' de-emphasis on store expansion was their reluctance, in many cases, to ponder growth beyond the end of this year. Unlike in the past, most would not project their store count for 1989.

Circuit City continued to strengthen its position as the industry leader by gaining market share from competitors. However, many analysts predict that its ability to increase market share to offset the industry's flat sales may end in the next six to 12 months.

For fiscal 1988, ended Feb. 29, Circuit City's sales rose 34 percent to $1.35 billion. The 105-store chain plans to open 20 stores in 1988 and will enter the new markets of Florida, Northern California and Nevada.

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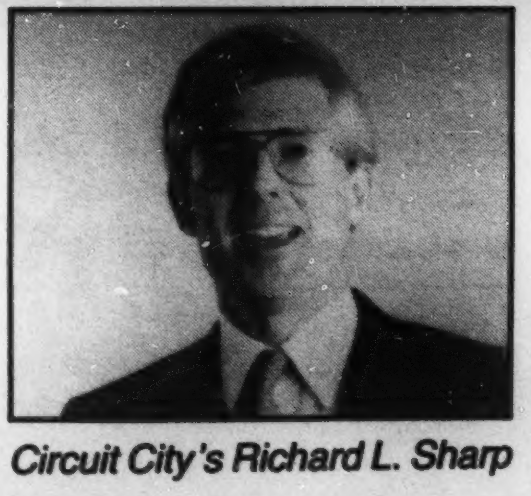

Circuit City's Richard L. Sharp